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Institutions putting more into mutual funds

By Ed Christman

Institutional investors pumped an estimated $35 billion into mutual funds as of March 31, but they will need more courting before they become as infatuated with mutual funds as have their individual counterparts.

The $35 billion estimated by *Pensions & Investment Age* is based on interviews with industry experts. It is more than double the Investment Company Institute's estimate of $16.9 billion as of the end of 1984.

Although mutual funds have captured only about 2.2% of all employee benefit assets, they are poised to become prime beneficiaries of the growing popularity of defined contribution plans, particularly 401(k) plans.

(Mutual fund assets totaled $495.5 billion at the end of 1985, an increase of 33.7% from the previous year's $370.7 billion, according to the Investment Company Institute. About $31.6 billion of the total comes from individual retirement accounts, about double what the institute reported a year earlier.)

Industry participants and observers predict mutual funds will grab a bigger piece of the employee benefit pie; they say the funds provide the liquidity and extensive record keeping needed in defined contribution plans that allow participants to make the asset allocation decision.

Mutual funds "are a nice fit in the defined contribution area," said Don Gingery, director of investment management research for consultant William M. Mercer-Meidinger Inc., Atlanta. "But we don't see much mutual fund business on the defined benefit side."

"The growth of defined contribution plans has opened the doorway for mutual funds," said Anthony J. Russo Jr., director of retirement planning at Lord

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Pensions & Investment Age®

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Photo by Ken Heinen

Sallie Mae relishes status as innovator

The Student Loan Marketing Association, under the leadership of Albert Lord, above, has become a favorite client of investment banking firms because of its willingness to try new financing ideas. Story on page 63.

Senate committee revision

Tax bill hits funding, benefits

By Richard J. Gillespie and Joel Chernoff

WASHINGTON — The Senate Finance Committee's revised tax overhaul proposal could slash maximum early retirement benefits for middle- and senior-level management, and impair the ability of some companies to advance fund their plans.

The bill, which is the tax-writing panel's second stab at revamping the tax code, also would curtail dramatically the advantages of individual retirement accounts for employees covered by other retirement plans, and would reduce the maximum amount employees can contribute to a 401(k) plan to $7,000 from $30,000.

The new retirement package would raise some $6 billion in revenue, without the IRA changes, during the next five years. The version the same committee had approved last month was revenue-neutral, excluding IRA changes.

The package basically retains most of the same rules adopted last month, including changes in vesting, integration and coverage standards (*Pensions & Investment Age*, April 28).

The new early retirement rules, concocted only three days before the Senate Finance Committee approved its package in a do-or-die session May 6, would sharply cut the top benefits an executive could receive if he or she retired before age 65.

The proposed rule would require the normal retirement age used by a plan be the same as that of Social Security, which is now 65 but will rise to 66 in 2005 and 67 in 2027.

For retirement prior to age 65, the maximum allowable benefit any employee could receive from a defined benefit plan would have to be reduced actuarially.

Under section 415 of the Internal Revenue Code, which governs these matters, private plans can fund for a maximum retirement benefit up to $90,000 a year as low as age 62.

The proposal would require the maximum to be reduced to $67,500 at age 62 and to $37,800 at age 55, according to Marjorie Kulash, a consultant with The Wyatt Co., Washington.

In addition, existing law allows the top benefit to be lowered to no less than $75,000 at age 55. This floor would be eliminated under the new proposal.

What's more, the new rules may discourage funding for companies that use a normal retirement age allowing employees to retire with full benefits between ages 62 and 64.

Officials of a Fortune 500 company that uses 62 as its normal retirement age estimated the proposed limits would affect about 55% of the firm's employees by the time they retire, compared with 38% under the current $90,000 limit.

But pension experts differ on how many companies use normal retirement ages below 65.

"It varies all over the lot, depending on how they want to fund" their plans, said Dallas Salisbury, president of the Employee Benefit Research Institute, Washington. The issues raised are as much "employee relations and work force planning" as funding issues, he said.

Stuart Brahs, executive director of the Association of Private Pension and Welfare

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4 trusts could hold up acquisition of Eastern

By Rose Darby

MIAMI — Four employee-controlled trust funds containing roughly one-fifth of Eastern Air Line Inc.'s total outstanding stock could snag Frank Lorenzo's plans to acquire Eastern.

The first snag could be a suit by the unions attempting to force Eastern to pay for an independent expert to advise the trusts on how to vote their shares in the merger.

Texas International Airlines Inc., of which Mr. Lorenzo is president, so far claims 51% ownership of Eastern shares.

While some observers doubt the trusts — three of which are controlled by Eastern unions — can upset Mr. Lorenzo's plans, it is thought they may be able to make the acquisition more costly.

Questions remain as to whether Texas International's offer to purchase Eastern gives a fair shake to the trusts, which contain both common and a special issue of preferred stock given to union and non-contract employees in exchange for wage concessions granted in 1984.

Among the key questions:

- How, and by whom, will the preferred issues be valued?
- Will Eastern pay for independent advice to aid the trusts' review of the offer?
- Will plan trustees or participants and beneficiaries have the authority to tender the shares?

Organized labor holds bitter feelings for Mr. Lorenzo, who

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PIPER funds

Levi Strauss, maker of 501® jeans, has adopted a strict South Africa investment policy.

Levi plans trim S. Africa stocks

By Trudy Ring

SAN FRANCISCO — Levi Strauss & Co. has restricted South Africa-related investments for its defined benefit plans as well as defined contribution plans, the first corporate pension sponsor known to do so.

No employee benefit assets will be invested in stocks or bonds of companies operating in South Africa unless those companies have endorsed the Sullivan Principles and are rated in the top three categories of compliance with the principles, said Keith Williams, director-retirement investment.

The principles, developed by Philadelphia minister Leon Sullivan, call for equal treatment of all races on the job and also call on employers to work to change South Africa's system of racial segregation. Companies that endorse the principles are monitored by a consulting firm, Arthur D. Little & Co., Cambridge, Mass.

"We are attempting to limit, in a positive way, our South African investment," Mr. Williams said. Levi Strauss, which he said has a history of social involvement, adopted the policy in November.

The policy won't restrict investments severely, he said. He estimated 5% of the plans' $100 million equity holdings will have to be divested. Levi Strauss' money managers were given 18 months to divest. That probably is normal portfolio turnover time anyway, he said.

Levi Strauss has $200 million in employee benefit assets; the policy will be applied to bond holdings as well as stocks, but corporate bond holdings are very small, Mr. Williams said.

The $200 million primarily is in defined contribution plans. Levi Strauss recently terminated its two largest defined benefit plans, which had about $176 million in combined assets, Mr. Williams said. Two successor defined benefit plans won't be funded until

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Bernstein-Macaulay to stress fixed income

By Marci Baker

NEW YORK — In a major shift in business strategy, Bernstein-Macaulay Inc. is abandoning balanced and equity management in favor of a full-scale thrust into fixed-income management.

The move follows a two-year erosion of Bernstein's balanced and equity tax-exempt client base largely because of below-average investment performance and an exodus of investment talent.

News of the change surfaced with the announcement that Heath McLendon, an executive vice president at Shearson Lehman Brothers Inc. — which owns Bernstein-Macaulay — and onetime president of Bernstein, would replace Morton Richter as Bernstein's chief executive officer.

Mr. Richter also relinquished his role as chairman of the New York-based Shearson subsidiary, but will continue as a consultant. It was not known who would succeed him as chairman. Mr. Richter was recruited in 1984 by Francis "Shorty" Fraenkel, then senior executive vice president and liaison for all of Shearson's investment management units, to replace Harold Ehrlich. Mr. Richter previously had run the pension fund at Jim Walter Corp., Tampa, Fla., for about 10 years. Mr. Richter said the decision to transform Bernstein into a fixed-income specialist, made by officials at Shearson, was presented to him as a "fait accompli" May 1. "I didn't see it coming," he said.

"Bernstein is going through a reorganization that will focus the firm on fixed income," Mr. McLendon said.

The goal is to make the firm a "premier investment manager" in that area, which "implies a major de-emphasis on the equity and balanced side," he said.

It could not be determined at press time if the firm would resign its equity and balanced accounts or keep those clients while de-emphasizing the areas.

Sources said Shearson officials had approached Lehman Management Co., another Shearson investment management unit, six to 12 months ago about having Lehman take over Bernstein's equity accounts. Officials at Lehman declined; Lehman uses a more bottom-up approach to equity investing in contrast to Bernstein's top-down approach.

Lackluster performance had led Bernstein to be less successful than other units, which also include Shearson Asset Management and The Boston Co., Mr. McLendon said. Shearson is hoping new focus will make Bernstein as dynamic as the other units.

Morton Richter, former Bernstein-Macaulay CEO

Members of the investment community noted Bernstein's balanced and equity performance numbers had been in the bottom half of just about any performance measurement universe for some time.

Evaluation Associates Inc.'s investment manager profiles reported balanced account returns for the firm of 13.1% in 1983, 1.8% in 1984 and 11.9% in the first six months of 1985. The EAI median for these periods was 12.2%, 2% and 12.2%, respectively.

For straight equity, Bernstein turned in a 15.5% return for 1983, −3.5% decline for 1984 and 12.4% for the first half of 1985. This compares to medians for the EAI universe of 14.7% in 1983 and −3.3% in 1984. (Numbers for the first half of 1985 weren't available.)

But Mr. Richter said Bernstein's performance was on track, given the firm's top-down, low volatility approach in what was an up market during his tenure at the firm. Bernstein's money management style has been designed to track close to the market when stock prices are on the rise and outperform the market in down periods, he said. "Performance had been lousy

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DOL sues Equitable Life

Dispute over use of Teamster land for waste site

By Barry B. Burr

The Equitable Life Assurance Society of the United States has been sued by the Department of Labor for breach of fiduciary duty in allowing an Alabama property owned by the Teamsters, Central States, Southeast & Southwest Areas pension fund to be used for hazardous waste facilities.

Equitable, based in New York, also is involved in a dispute with the Central States Teamsters fund, Chicago, over the use of a property in New Jersey for the handling of hazardous waste.

The disputes could have broad implications for pension funds that invest in real estate and other physical assets, according to an attorney who isn't involved with the cases.

Roger C. Siske, partner with the Chicago law firm of Sonnenschein, Carlin, Nath & Rosenthal, suggested the disputes demonstrate the potential vulnerability to liability claims pension funds might have from owning real assets, even though their holdings might be managed and occupied by other firms.

Both the Alabama property involved in the suit by the Labor Department and the New Jersey property were managed by Equitable on behalf of the Teamsters fund, when the insurer was the fund's fiduciary.

Officials of the Teamsters and the Labor Department, in separate actions, contend Equitable placed the nearly $6 billion pension fund in jeopardy, exposing it to potential liability for damage and clean-up of the hazardous wastes.

In the Alabama dispute, Secretary of Labor William E. Brock filed suit April 25 in U.S. District Court in Washington, claiming Equitable "breached its fiduciary obligations" under the Employee Retirement Income Security Act.

The suit claims Equitable permitted Chemical Waste Management Inc., a unit of Waste Management Inc., both of Oak Brook, Ill., to sublease part of the Central States property as a facility for hazardous wastes, including PCBs, or polychlorinated biphenyls.

The Labor Department cites Equitable in the suit for allowing the sublease without first conducting appropriate inspections and analyses "to protect other assets of the fund against loss from potential liability in connection with the CWM sublease."

The suit claims Equitable failed to consider and evaluate properly the pension fund's exposure to potential liability in the event of a hazardous waste spill, even though the insurer was given a copy of Chemical Waste's sublease, providing expressly that the property "shall be used exclusively by (the) tenant as a tank terminal storage and transfer facility for hazardous wastes."

In a release, the Labor Department noted that in the event of a hazardous spill, "the Comprehensive Environmental

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LTV board asked to buy stock

By Marci Baker

DALLAS — Each member of The LTV Corp.'s board of directors would be required to buy at least $10,000 worth of LTV common stock under a shareholder resolution expected at the company's annual meeting May 16.

Carl Olson, of Tolouka Lake, Calif., has made the proposal. The management of LTV, apparently the first company ever to be faced with such a proposition, opposes it.

Mr. Olson, who owns 200 shares of LTV common stock, believes LTV's 70,000 shareholders deserve to think of the board of directors as "one of us," according to the proxy statement outlining the proposal.

"Directors should have a major stake in the financial health and productivity of the corporation. Their fortunes should be at stake while they serve as directors," he said in the proxy statement.

According to the proxy statement, Mr. Olson thinks a $10,000 stake is a "very reasonable amount" considering LTV directors oversee a multibillion-dollar corporation.

The LTV board is asking shareholders to vote against the proposal because it would disqualify individuals with special expertise, such as academics or union members, who could not afford to purchase that much stock from board membership, an LTV spokesman said.

Money, however, is not an issue for LTV's current 10 directors, virtually all of whom are current or retired chairmen or chief executive officers of other major corporations.

Four of those directors, including William Bricker, chairman of Diamond Shamrock Corp., and Maurice Granville, the retired chairman of Texaco Inc., own less than $10,000 of common stock, based on recent market prices.

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Dubuque Packing, PBGC accord seen

By Joel Chernoff

The Pension Benefit Guaranty Corp., the Dubuque Packing Co. and the company's meatpacking union are moving rapidly toward resolving who will pay for millions of dollars in unfunded liabilities for the company's pension plan, with a settlement possible this week.

The pension plan, which covers workers terminated when the company's Dubuque plant was sold in 1982, has liabilities for benefits estimated as high as $85 million. The current asset figure was unavailable.

What's more, how one element of the retirement plan issue is resolved could result in imposing liabilities on the company of hundreds of millions of dollars for unfunded medical benefits for retirees.

The retirement plan negotiations involve not only unfunded liabilities for benefits guaranteed by the PBGC, but also additional benefits an arbitrator has ruled the company must fund before being able to terminate the plan.

To avoid a court ruling that could set a dangerous precedent for the PBGC and the union, as well as an unaffordable cost for the company, the parties are swiftly drawing closer to settlement.

The PBGC and the union, Local 150A of the United Food and Commercial Workers, Dubuque, Iowa, were scheduled to meet last Friday to try to divide the amount the company is offering between PBGC-guaranteed and non-guaranteed benefits. The size of the settlement being offered was not disclosed, but is expected to be far short of the potential liabilities.

Any remaining liabilities not funded by the settlement for guaranteed benefits would be assumed by the PBGC; however, non-guaranteed benefits only would be funded to the extent

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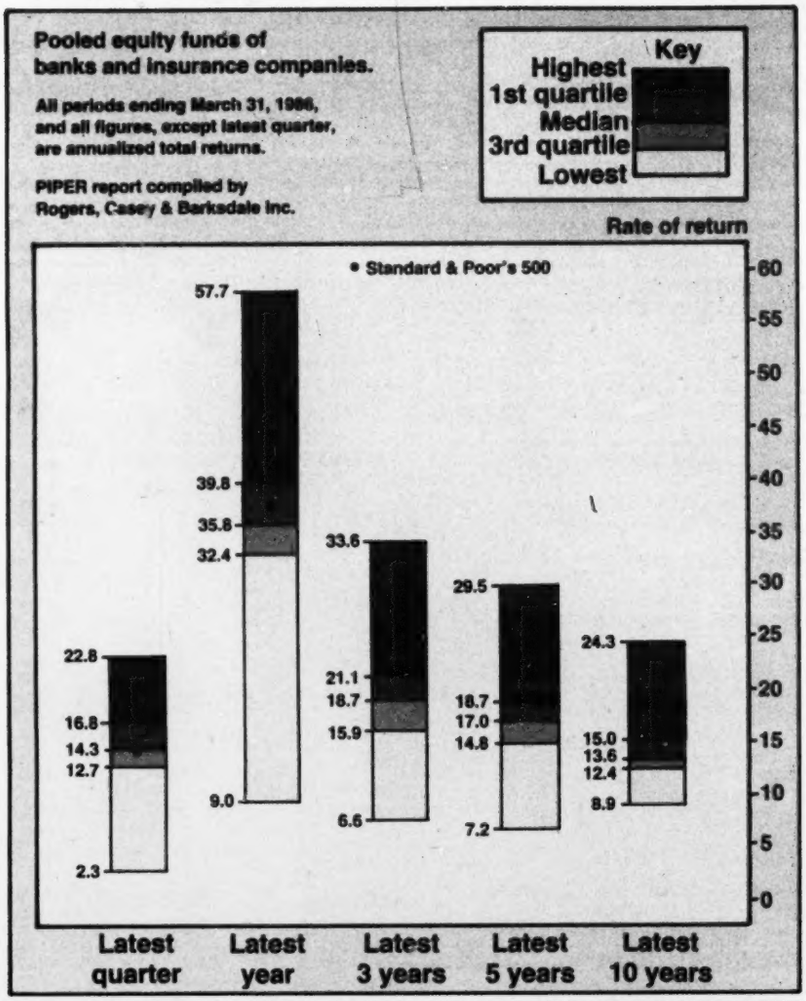
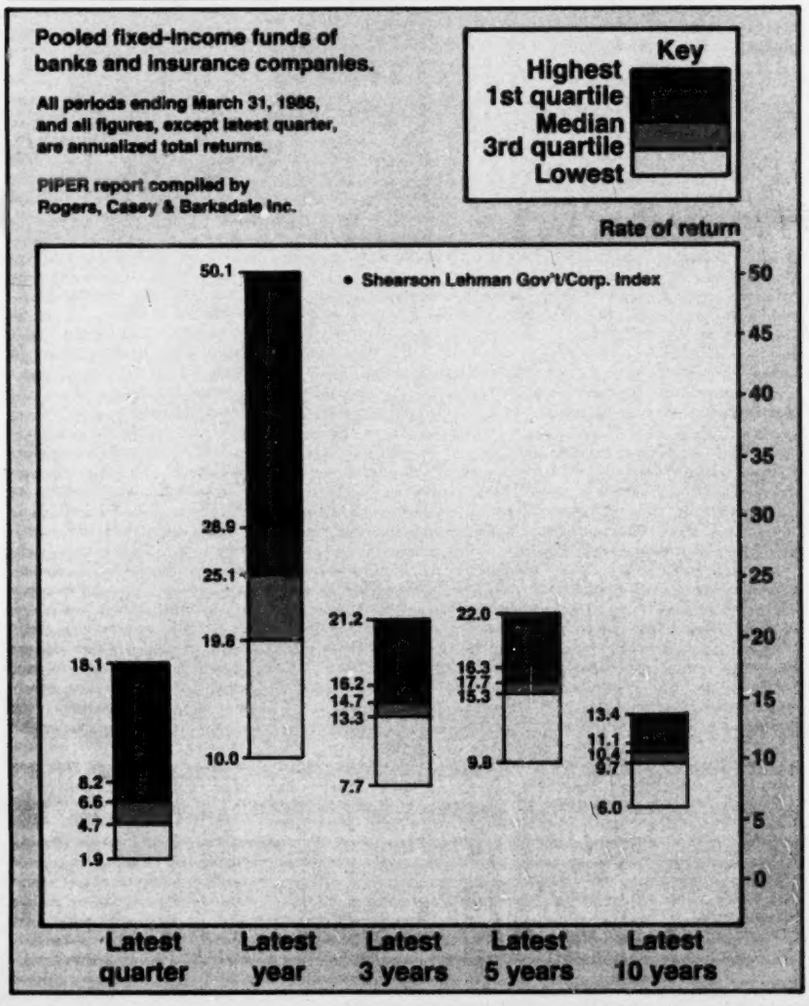
PIPER

The statistical data are extracted from Pensions & Investments' Performance Evaluation Report, a quarterly performance evaluation published by Pensions & Investment Age. PIPER details comparative performance data on equity and fixed-income funds at more than 200 banks and insurance companies. PIPER is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn.





Top managers aided by longer Treasuries

By Barry B. Burr

The best-performing fixed-income managers tracked by Pensions & Investments' Performance Evaluation Report in the first quarter favored medium- and long-term Treasury securities.

At Equitable Life Assurance Society of the United States, New York, Frank J. Scott Jr., vice president, said he kept buying longer maturities for his more than $220 million bond portfolio during the quarter.

"I kept lengthening it as I became convinced oil prices would continue to fall," said Mr. Scott, who was once an oil analyst.

His portfolio ranked as the leading fixed-income fund in PIPER, returning 18.1% in the quarter. By contrast the Shearson Lehman Government/Corporate bond index returned 8.5% in the same period.

Falling oil prices "would lower inflation considerably," dampen interest rates and boost bond prices, Mr. Scott said.

The Equitable portfolio was invested 100% in Treasury securities, he said.

Its duration was lengthened to 10 to 10½ years by the end of March from five to 5½ years in January, he added.

In the second quarter, he has gotten more bullish on bond prices. At the end of April, about 80% of the portfolio was in maturities of 30 years, up from about 70% at the end of the quarter.

Despite stellar performances of a few fixed-income funds, the Shearson Lehman index beat most funds handily in all periods, according to PIPER.

- In the first quarter, of 315 funds tracked by PIPER, only 44 bettered and four tied the index's 8.5% return. The median return was 6.6%.
- In the 12 months ended March 31, 63 of 263 funds bettered — and two tied — the index's 28.9% return. The median return was 25.1%.
- In the three years ended March 31, 37 of 205 funds bettered — and four tied — the index's 16.6% return. The median return was 14.7%.
- In the five-year period of 226 funds, 45 bettered and three tied the index's 18% return. The median return was 16.3%.
- In the 10 years, of 228 funds, 51 bettered and five tied the index's 10.9% return. The median return was 10.4%.

The first quarter and one year results are actual returns; the results for three, five and 10 years are annualized time-weighted returns.

The $100 million fund of Centerre Trust Co., St. Louis, ranked second in the quarter, returning 15.6%.

Explaining the rise in bond prices, Robert J. Franklin, Centerre senior vice president, said, "The future expectation of inflation dropped dramatically during the quarter."

He said the quarter began with very high real, or after-inflation, interest rates, with 30-year Treasury bonds yielding 9⅛%, compared with an inflation rate of 3½%. By the end of March, he said, the Treasury rate fell to 7½%, while inflation fell to near zero, leaving room for possibly further declines in interest rates.

Unlike some other top performers in the quarter, Mr. Franklin said Centerre had a large holding of corporate securities, about 30% of the portfolio.

About 10% was in Treasury zero-coupon securities, mostly of 20-year maturities, which he said did well as rates declined.

The poorest performing sector of the portfolio was its mortgage-backed securities, about 20% of the portfolio.

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Large-cap funds lead equity performance

By Trudy Ring

Pooled bank and insurance company equity funds concentrated in large-capitalization issues were big winners in the 12 months ended March 31 and in other periods covered by the Pensions & Investments' Performance Evaluation Report.

Some small-cap funds joined the large-cap ones in the top ranks for longer periods in the survey. Small-cap stocks have been out of favor in the past few years.

The median PIPER equity fund underperformed the Standard & Poor's 500 stock index in the one-year, three-year and five-year periods of the survey, while outperforming it slightly in the 10-year period and in the latest quarter.

In the year ended March 31, the median fund returned 35.8%, while the index returned 37.7%. In the three-year period, the median fund had a compound annual return of 18.7%, while the index returned 21.2%. The five-year annualized return was 17% for the median fund, 17.5% for the index.

In the 10-year period, the median fund returned 15% on an annual basis, while the S&P 500 returned 14.3%. In the first quarter of 1986, the median fund returned 14.3% and the index returned 14.1%.

The top performer for the 12-month, three-year and five-year periods was Sun Banks Inc., Orlando, Fla.

Its equity fund returned 57.7% for the year and had a compound annual return of 33.6% for the three-year period and 29.5% for the five-year span. It also ranked in the top decile in the 10-year period ended March 31, with an 18.2% compound annual return, and in the latest quarter, with a 19.1% gain.

About $130 million is invested in Sun Bank's fund, which is concentrated in large-cap, well-known companies with above-average growth rates, said Anthony R. Gray, executive vice president.

"We take big positions in industries we like, but no position in industries we don't like," Mr. Gray said. "We are not a closet indexer."

It has heavy positions in property and casualty insurance companies, regional banks, service companies, food companies and drug firms, he said. It has no energy stocks and has not had any for at least five years, he said.

Some of the fund's biggest individual stock holdings are **Digital Equipment Corp., Aetna Life & Casualty Co., Chubb Corp., American Express Co., Merck & Co. Inc., Petrie Stores Corp.** and **Ralston Purina Co.**

The fund also has an above-average stock turnover, about 250% a year, Mr. Gray said. He said the turnover has added almost 15 percentage points a year to the fund's return.

Another large-cap fund that did well in the year ended March 31 was Boston-based

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Top bond funds by size.....22

Top quartile commingled equity funds
3-month returns

	%
New England Mutual, Mass.	22.8
Pittsburgh Natl. (QMS), Pa.	22.7
First Trust Corp., Colo.	22.2
Citizens Chillicothe (No. 2), Mo.	22.0
Bank of Delaware	21.7
Pittsburgh Natl. (QMS), Pa.	21.4
Omaha National Bank, Neb.	21.1
First Bank Milwaukee	21.0
Security Pacific (Fund E), Calif.	20.8
First of Neenah, Wis.	20.8
Texas Commerce	20.8
Northern Trust, Ill.	20.5
Puget Sound Natl., Wash.	20.4
County Bank of St. Louis	20.1
United of Denver	20.0
Guardian Insurance (No. 1), N.Y.	19.7
Equitable Life (No. 4), N.Y.	19.4
Sun Bank, Fla.	19.1
Harris Trust, Ill.	19.1
New Jersey National	18.9
Merchants Natl. (Fund I), Ind.	18.8
First Security Natl. (Fund D), Ky.	18.8
Continental Bank, Pa.	18.7
National Bank of Commerce, Neb.	18.7
First Interstate of Denver	18.6
NCNB National Bank, N.C.	18.5
South Carolina National	18.4
State Natl., Evanston, Ill.	18.3
First Fidelity, N.J.	18.3
Chemical Bank (No. 2), N.Y.	18.2
Bank of Virginia, Va.	18.2
Pacific Mutual, Calif.	18.1
First Natl. of Commerce, La.	18.1
HT Investors, R.I.	18.0
Northern Trust, Ill.	18.0
Barnett Banks Trust Co., Fla.	17.9
California First Bank	17.9
First of Toledo, Ohio	17.9
First of Neenah, Wis.	17.9
American National Bank, Ind.	17.8
Mercantile Trust, Mo.	17.7
Manufacturers Detroit, Wis.	17.7
Sentry Life (Acct. E), Wis.	17.7
American National Bank, Ind.	17.7
Liberty National, Okla.	17.5
First of Oklahoma	17.5
Comerica Bank, Mich.	17.5
New England Mutual, Mass.	17.5
Harris Trust, Ill.	17.3
US Natl. of Oregon	17.3
Mutual of America (No. 2), N.Y.	17.3
MTrust, Texas	17.3
Crown Life, Ont.	17.3
State Street Bank (Fund I), Mass.	17.3
Associated Kellogg, Wis.	17.2
Great West Life Assurance, Man.	17.2
Employers Life of Wausau (1)	17.2
Manufacturers Hanover, N.Y.	17.1
Summit Trust Co., N.J.	17.0
Old Second Natl., Ill.	17.0
Philadelphia National, Pa.	16.9
Republic Natl., Dallas	16.9
Chase Manhattan (Fund B), N.Y.	16.9
Chemical Bank (No. 1), N.Y.	16.9
Key Trust Co., N.Y.	16.8
Equitable Bank, Md.	16.8
Mellon Bank, Pa.	16.8
Security Natl. Bank, W. Va.	16.8
Indiana National Bank	16.8
Seattle Trust, Wash.	16.8
Standard & Poor's 500	**14.1**

Foundations and endowments spotlighted June 9.

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Top equity funds by size
1-year returns
Over $100 million

	%
Sun Bank, Fla.	57.7
American National, Chicago	46.1
Natl. City, Cleveland	44.1
Texas Commerce	44.0
Republic National, Dallas	43.8
Philadelphia National	43.4
Manufacturers Detroit	42.4
Mellon Bank, Pa.	41.4
John Hancock (1L), Mass.	41.4
Equitable Life (No. 4), N.Y.	41.2

$50 million to $100 million

	%
New England Mutual, Mass.	54.3
New York Life Ins. (Acct. 1)	51.1
First Interstate of Denver	46.3
Continental Bank, Pa.	45.8
Liberty National, Okla.	44.1
Interfirst Bank, Dallas	42.8
Harris Trust, Ill.	41.8
Fidelity Bank, Pa.	41.1
Crocker National (S), Calif.	40.9
First of Boston	40.8

$10 million to $50 million

	%
First Trust Corp., Colo.	52.4
Mutual of America (No. 2)	51.6
South Carolina Natl.	51.1
Northern Central, Pa.	50.5
Bank of Virginia	48.7
Security Pacific (E), Calif.	48.0
Omaha National Bank	47.8
New Jersey National	47.3
Nationwide Life Ins., Ohio	47.1
First of Neenah, Wis.	46.8

Under $10 million

	%
Puget Sound Natl., Wash.	50.8
Lincoln Natl., Ind.	50.4
Pittsburgh Natl. (QMS), Pa.	49.1
First of Neenah, Wis.	49.0
Pioneer Bank, Ill.	48.4
Northern States Trust Co., Ill.	42.1
American Natl. Bank, Ind.	40.4
American Natl. Bank (G), Ind.	39.8
Old Second Natl., Ill.	39.7
First United Trust Co. (G), Ill.	39.1

10-year returns
Over $100 million

	%
First Wisconsin Natl.	20.3
US Natl. of Oregon	19.1
Bessemer Trust, N.Y.	18.4
Provident Natl., Pa.	18.4
First Union Bank, N.C.	18.2
Sun Bank, Fla.	18.2
Equitable Life (No. 4), N.Y.	17.4
MTrust, Texas	17.2
Manufacturers Detroit	17.2
Bankers Life, Iowa	17.1

$50 million to $100 million

	%
Manufacturers Life, Ont.	24.3
First Interstate of Denver	18.1
New England Mutual, Mass.	18.0
Continental Bank, Pa.	17.1
AmSouth, Ala.	17.0
First Jersey Natl., N.J.	16.6
Fifth Third Bank, Ohio	16.1
First Interstate of Oregon	16.1
Liberty Natl., Okla.	15.8
Chicago Title & Trust, Ill.	15.5

$10 million to $50 million

	%
Guardian Insurance (No. 1)	22.2
First Trust Corp., Colo.	20.3
US Natl. of Galveston	20.3
Citizens Chillicothe (B), Mo.	19.6
First Variable Life, Ark.	18.8
State Natl., Evanston, Ill.	18.3
First of Oklahoma	18.1
Nationwide Life Ins., Ohio	17.8
Confederation Life, Ont.	17.8
Natl. Bank of Commerce	17.6

Under $10 million

	%
Pittsburgh Natl. (QMS), Pa.	16.1
Wheeling Dollar Bank	15.9
First of Neenah, Wis.	14.9
Union Central, Ohio	14.6
Unibanctrust, Ill.	14.5
First of Warsaw, Ind.	14.0
Old Second Natl., Ill.	13.9
Landmark First Natl., Fla.	13.7
Lincoln National, Ind.	13.6
Oregon Bank	13.5

1-year returns

	%
Sun Bank, Fla.	57.7
New England Mutual, Mass.	54.3
First Trust Corp., Colo.	52.4
Mutual of America (No. 2), N.Y.	51.6
South Carolina Natl.	51.1
New York Life Ins. (Acct. 1)	51.1
Puget Sound Natl., Wash.	50.8
Northern Central, Pa.	50.5
Lincoln National, Ind.	50.4
Pittsburgh Natl. (QMS), Pa.	49.1
First of Neenah, Wis.	49.0
Bank of Virginia	48.7
Pioneer Bank, Ill.	48.4
Security Pacific (Fund E), Calif.	48.0
Omaha Natl. Bank, Neb.	47.8
New Jersey National	47.3
Nationwide Life Ins., Ohio	47.1
First of Neenah, Wis.	46.8
First Interstate of Denver	46.3
Summit Trust Co., N.J.	46.1
American Natl., Chicago	46.1
Continental Bank, Pa.	45.8
Pittsburgh Natl. (QMS), Pa.	45.6
First Bank Milwaukee	45.4
State Natl., Evanston, Ill.	45.2
First Security Natl. Bank (D), Ky.	45.0
Merchants Natl. (I), Ind.	44.8
Seattle Trust, Wash.	44.6
Harris Trust, Ill.	44.2
Citizens Chillicothe (Fund B), Mo.	44.2
Liberty National, Okla.	44.1
Natl. City Cleveland, Ohio	44.1
Texas Commerce	44.0
Republic Natl., Dallas	43.8
Philadelphia Natl., Pa.	43.4
Riggs of Washington	42.8
Interfirst Bank Dallas	42.8
First of Toledo, Ohio	42.7
Pacific Mutual, Calif.	42.7
Valley National (I), Ariz.	42.6
Guardian Insurance (No. 1), N.Y.	42.5
First Kentucky Trust	42.4
Manufacturers Detroit	42.4
Barnett Banks Trust Co., Fla.	42.2
Northern States Trust Co., Ill.	42.1
Harris Trust, Ill.	41.8
First of Oklahoma	41.6
Mellon Bank, Pa.	41.4
John Hancock (1L), Mass.	41.4
California First Bank	41.2
United of Denver, Colo.	41.2
Equitable Life (No. 4), N.Y.	41.2
Fidelity Bank, Pa.	41.1
Crocker Natl. (Fund S), Calif.	40.9
CREF	40.8
First of Boston, Mass.	40.8
First Fidelity Bank, N.J.	40.6
State Street Bank (Fund I), Mass.	40.6
American National Bank, Ind.	40.4
Chemical Bank (Fund 2), N.Y.	40.3
Citizens Fidelity (E), Ky.	40.2
Bankers Life, Iowa	40.1
State Street Bank, Mass.	40.1
Associated Kellogg, Wis.	40.0
NCNB National Bank, N.C.	39.9
County Bank of St. Louis	39.9
Great East Life Assur., Man.	39.8
Trust Svcs of Amer., Calif.	39.8
Norwest Bank, Minn.	39.8
American Natl. Bank, Ind.	39.8
Standard & Poor's 500	**37.7**

3-year returns

	%
Sun Bank, Fla.	33.6
Bank of New England, Mass.	28.3
Guardian Ins. (No. 1), N.Y.	28.0
First Interstate of Oregon	27.5
MTrust, Fort Worth	27.4
LaSalle National, Ill.	27.0
New Jersey National	26.8
Northern States Trust Co., Ill.	26.2
Republic Natl., Dallas	25.9
Nationwide Life Ins., Ohio	25.6
Manufacturers Detroit	25.5
Provident National, Pa.	25.4
Mellon Bank, Pa.	25.3
State Natl., Evanston, Ill.	25.2
Prudential, N.J.	25.1
First Union Bank, N.C.	24.9
First Trust Corp., Colo.	24.7
Bank of the West, Calif.	24.6
First of Neenah, Wis.	24.2
Lincoln National, Ind.	23.9
First of Omaha (Fund D), Neb.	23.8
John Hancock (1L), Mass.	23.7
First of Neenah, Wis.	23.6
Mercantile Trust, Mo.	23.5
US Natl. of Galveston, Texas	23.4
American Natl., Chicago	23.4
New York Life Ins. (Acct. 1)	23.3
First Jersey Natl., N.J.	23.2
Bank of Virginia	23.2
Mercantile Safe, Md.	23.1
US Trust, N.Y.	22.9
Fidelity Mgmt. Trust, Mass.	22.8
Old Kent, Mich.	22.7
John Hancock (1K), Mass.	22.6
Continental Bank, Pa.	22.6
Frost Natl. (Fund A), Texas	22.4
Natl. Bank of Commerce, Tenn.	22.4
Citytrust, Conn.	22.4
Lake Shore Natl., Ill.	22.3
AmeriTrust, Ohio	22.2
Massachusetts Mutual	22.2
Pittsburgh Natl. (QMS), Pa.	22.2
CREF	22.2
New England Mutual, Mass.	22.0
Pioneer Bank, Ill.	22.0
Barnett Banks Trust Co., Fla.	21.9
Central Penn, Pa.	21.9
First of Warsaw, Ind.	21.8
Mutual Service Life (8), Minn.	21.8
Dauphin Deposit, Pa.	21.7
Bankers Trust, N.Y.	21.6
Texas Commerce	21.6
Fidelity Bank, Pa.	21.6
Colorado National Bank	21.5
Oregon Bank	21.5
Bankers Life, Iowa	21.5
First Pennsylvania Bank	21.3
American Natl., Chicago	21.2
Marine Midland, N.Y.	21.2
Standard & Poor's 500	**21.2**

Master trust profiles: June 23.

5-year returns

	%
Sun Bank, Fla.	29.5
First Union Bank, N.C.	25.6
Manufacturers Life, Ont.	25.0
Guardian Insurance (Acct. 1), N.Y.	24.0
Manufacturers Detroit	23.5
New England Mutual, Mass.	23.0
Nationwide Life Ins., Ohio	22.9
First Variable Life, Ark.	22.5
Resource Bank & Trust, Minn.	22.3
Pioneer Bank, Ill.	22.2
Dauphin Deposit, Pa.	21.9
First Fidelity Bank, N.J.	21.8
First Interstate of Oregon	21.7
United of Denver	21.7
Bank of Virginia	21.6
Lake Shore National, Ill.	21.5
New Jersey National	21.5
US Natl. of Galveston, Texas	21.5
American Natl., Chicago	21.4
First of Oklahoma	21.3
AmSouth, Ala.	21.3
MTrust, Fort Worth, Texas	21.1
Prudential, N.J.	21.1
First of Omaha (Fund D), Neb.	21.0
Provident National, Pa.	21.0
First Security Natl. Bank (D), Ky.	20.9
Barnett Banks Trust Co., Fla.	20.9
Connecticut Mutual Life	20.9
US Natl. of Oregon	20.8
Bank of the West, Calif.	20.5
Seattle Trust, Wash.	20.4
First Wis. Natl., Madison	20.1
Massachusetts Mutual	19.9
Mid-State Bancorp, Pa.	19.9
John Hancock (1L), Mass.	19.9
First Bank, Milwaukee	19.8
Colorado National Bank	19.8
Texas Commerce	19.7
Midlantic National, N.J.	19.5
First Wisconsin Trust	19.5
Republic National, Dallas	19.4
Confederation Life, Ont.	19.3
First Trust Corp., Colo.	19.3
First of Warsaw, Ind.	19.3
Natl. Bank of Commerce, Tenn.	19.2
First Pennsylvania Bank	19.2
Bank of Tokyo, N.Y.	19.2
First Tennessee, Memphis	19.2
Old Kent, Mich.	19.1
Union Central, Ohio	19.1
Southeast Bank NA, Fla.	19.0
State Natl., Evanston, Ill.	19.0
MTrust, Texas	18.9
First of Neenah, Wis.	18.9
Fifth Third Bank, Ohio	18.8
Continental Bank, Pa.	18.8
Gary Wheaton Bank, Ill.	18.8
Mercantile Safe, Md.	18.8
Society National, Ohio	18.7
AmeriTrust, Ohio	18.7
Wheeling Dollar Bank, W. Va.	18.7
First Kentucky Trust	18.7
Shawmut Bank, Mass.	18.7
Standard & Poor's 500	**17.5**

10-year returns

	%
Manufacturers Life, Ont.	24.3
Guardian Insurance (No. 1), N.Y.	22.2
First Trust Corp., Colo.	20.3
US Natl. of Galveston, Texas	20.3
First Wisconsin Natl., Madison	20.3
Citizens Chillicothe (B), Mo.	19.6
US Natl. of Oregon	19.1
First Variable Life, Ark.	18.6
Bessemer Trust, N.Y.	18.4
Provident National, Pa.	18.4
State Natl., Evanston, Ill.	18.3
First Union Bank, N.C.	18.2
Sun Bank, Fla.	18.2
First Interstate of Denver	18.1
First of Oklahoma	18.1

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*Based on Risk Return Performance Comparisons report issued by Frank Russell Company for Investment Advisor Separate Accounts and Balanced Separate Accounts for five years ending 12/31/85. Universe includes over 120 portfolios.

New England Mutual, Mass.	18.0
Nationwide Life Ins., Ohio	17.8
Confederation Life, Ont.	17.8
Natl. Bank of Commerce, Neb.	17.6
First of Omaha (Fund D), Neb.	17.5
Equitable Life (No. 4), N.Y.	17.4
MTrust, Texas	17.2
Manufacturers Detroit	17.2
MTrust, Fort Worth, Texas	17.2
United of Denver, Colo.	17.2
Continental Bank, Pa.	17.1
Bankers Life, Iowa	17.1
Employers Life of Wausau (1)	17.1
Massachusetts Mutual	17.0
AmSouth, Ala.	17.0
Bank of Virginia	16.9
First Jersey Natl., N.J.	16.6
Aetna Life & Casualty, Conn.	16.5
First Interstate of Nevada	16.5
IAA Trust Co. (Fund C), Ill.	16.4
Penn Mutual Life (Acct. A), Pa.	16.4
National City Cleveland	16.3
Fifth Third Bank, Ohio	16.1
First Interstate of Oregon	16.1
Pittsburgh Natl. (QMS), Pa.	16.1
First Interstate of Wash.	16.0
Texas Commerce	16.0
Valley Fidelity, Tenn.	16.0
Wheeling Dollar Bank, W. Va.	15.9
First National, Lincoln, Neb.	15.9
Liberty National, Okla.	15.8
Bank of Tokyo, N.Y.	15.7
Home Life, N.Y.	15.6
Chicago Title & Trust, Ill.	15.5
Philadelphia National	15.5
Colorado National Bank	15.4
Citytrust (E1), Conn.	15.0
First Natl. of Commerce, La.	15.0
Republic National, Dallas	15.0
First Pennsylvania Bank	15.0
New Jersey National	15.0
Standard & Poor's 500	**14.3**

Top quartile commingled fixed-income funds

3-month returns

	%
Equitable Life (No. 5), N.Y.	18.1
Centerre Trust, Mo.	15.6
Manufacturers Life, Ont.	14.4
Chase Manhattan, N.Y.	13.8
Union Labor Life (Acct. F), D.C.	13.4
First Interstate of Denver	12.7
First Interstate of Wisconsin	12.5
LaSalle National, Ill.	12.3
CIGNA Corp., Conn.	12.0
Fidelity Bank, Pa.	12.0
United of Denver	11.7
Hawaiian Trust	11.6
Metropolitan Life (No. 41), N.Y.	11.6
Travelers (Acct. P), Conn.	11.3
Republic National, Dallas	10.5
Citicorp, N.Y.	10.4
MTrust, Texas	10.1
First Trust Corp, Colo.	9.8
Continental Illinois	9.7
John Hancock, Mass.	9.6
First Wisconsin Trust	9.5
Trust Co. of Georgia	9.4
Key Trust Co., N.Y.	9.4
Omaha National Bank, Neb.	9.3
Manufacturers Hanover, N.Y.	9.3
Natwest USA, N.Y.	9.2
Comerica Bank, Mich.	9.2
Bankers Life, Iowa	9.2
Citizens & Southern, Ga.	9.1
First Interstate of Ariz.	9.1
American Security, D.C.	9.1
Chase Manhattan (A), N.Y.	8.9
Boatmen's FNB, K.C., Mo.	8.8
Crocker Natl. (Fund R), Calif.	8.8
Natl. Bank of Commerce, Neb.	8.8
First Union Bank (Fund 1), N.C.	8.7
Liberty National, Ky.	8.7
HT Investors (Fund A), R.I.	8.7
Boatmen's National, Mo.	8.7
AmSouth, Ala.	8.7
Northern Trust, Ill.	8.6
Chemical Bank (2), N.Y.	8.6
First Jersey Natl., N.J.	8.6
Harris Trust, Ill.	8.6
IAA Trust Co. (Fund B), Ill.	8.5
Shawmut Bank, Mass.	8.5
Shearson Lehman Index	**8.5**
Prudential (VCA 7), N.J.	8.5
Connecticut National Bank	8.5
Lincoln National Pens., Ind.	8.4
Connecticut National Bank	8.4
American National Bank, Ind.	8.4
Mellon Bank, Pa.	8.4
American National, Minn.	8.4
Sovran Bank, Va.	8.4
Aetna Life & Casualty (76), Conn.	8.3
First Interstate of Wash.	8.3
Union National, Wichita, Kan.	8.3
Pacific Mutual, Calif.	8.3
Maryland National	8.3
National Bank of Detroit	8.3
Philadelphia National	8.3

Top fixed funds by size

1-year returns

Over $100 million

	%
Equitable Life (No. 5), N.Y.	42.8
CIGNA Corp., Conn.	35.8
Life of Virginia	34.5
Bankers Life, Iowa	34.5
John Hancock, Mass.	33.4
American Security, D.C.	32.7
Aetna Life & Cas. (76) Conn.	32.4
Chase Manhattan (A), N.Y.	31.6
Harris Trust, Ill.	31.1
Manufacturers Hanover, N.Y.	30.8

$50 million to $100 million

	%
Centerre Trust, Mo.	50.1
First Interstate of Denver	42.9
Travelers (P), Conn.	39.3
Metropolitan Life (41), N.Y.	38.5
Trust Co. of Georgia	32.7
Comerica Bank, Mich.	32.4
Continental Illinois	31.9
MTrust, Texas	31.1
Bankers Trust (Fund A), N.Y.	30.3
First Union Bank (Fund 1)	30.3

$10 million to $50 million

	%
United of Denver	47.3
Hawaiian Trust	39.2
Republic Natl., Dallas	37.9
Fidelity Bank, Pa.	36.2
Natl. Bank of Commerce	32.8
AmSouth, Ala.	32.8
Connecticut Natl. Bank	31.9
Security Pacific (F), Calif.	31.7
Trust Svcs of Amer., Calif.	31.3
Omaha National Bank	31.1

Under $10 million

	%
Manufacturers Life, Ont.	45.4
LaSalle Natl., Ill.	41.4
Connecticut Natl. Bank	36.0
First Trust Corp., Colo.	33.8
First Interstate of Wis.	32.9
First Interstate of Ariz.	31.9
Maryland National	31.7
Natwest USA, N.Y.	31.6
Key Trust Co., N.Y.	31.0
IAA Trust Co. (Fund B), Ill.	30.2

10-year returns

Over $100 million

	%
Life of Virginia	13.4
Texas Commerce	12.6
American Security, D.C.	12.4
Manufacturers Hanover, N.Y.	12.2
Boatmen's National, Mo.	11.8
CIGNA Corp., Conn.	11.8
Mercantile Trust, Mo.	11.7
John Hancock, Mass.	11.5
Wachovia Bank, N.C.	11.0
NCNB Natl. Bank, N.C.	10.8

$50 million to $100 million

	%
Centerre Trust, Mo.	13.3
Sovran Bank, Va.	13.2
Hibernia Natl., La.	12.5
First Interstate of Den.	12.0
Manufacturers Detroit	11.5
Bankers Tr. (B), N.Y.	11.3
US Trust, N.Y.	11.2
Mellon Bank, Pa.	11.2
Bankers Tr. (A), N.Y.	11.2
Amer. Natl., Chicago	11.0

$10 million to $50 million

	%
Bank IV, Wichita, Kan.	13.3
United of Denver	13.0
Fidelity Bank, Pa.	12.8
Pacific Mutual, Calif.	12.8
First Jersey Natl., N.J.	12.7
Seafirst Bank, Wash.	12.4
First Interstate of Calif.	12.2
First Kentucky Trust	11.9
First Wis. Natl., Madison	11.8
American Natl. Bank, Tenn.	11.5

Under $10 million

	%
Beverly Bank, Ill.	12.6
Central Fidelity, Va.	12.1
First Interstate of Ariz.	11.8
Key Trust Co., N.Y.	11.3
Connecticut Natl. Bank	11.3
Oregon Bank	11.2
First of Maryland	11.1
IAA Trust Co. (Fund B), Ill.	11.0
Union Planters, Tenn.	10.9
First of Neenah, Wis.	10.9

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First Kentucky Trust	8.2
First Variable Life, Ark.	8.2
First Fidelity Bank, N.J.	8.2
First Bank Milwaukee	8.2
Bank of California	8.2

1-year returns

	%
Centerre Trust, Mo.	50.1
United of Denver	47.3
Manufacturers Life, Ont.	45.4
First Interstate of Denver	42.9
Equitable Life (No. 5), N.Y.	42.8
LaSalle National, Ill.	41.4
Travelers (Acct. P), Conn.	39.3
Hawaiian Trust	39.2
Metropolitan Life (No. 41), N.Y.	38.5
Republic National, Dallas	37.9
Fidelity Bank, Pa.	36.2
Connecticut National Bank	36.0
CIGNA Corp., Conn.	35.8
Citicorp, Conn.	34.7
Life of Virginia	34.5
Bankers Life, Iowa	34.5
First Trust Corp., Colo.	33.8
John Hancock, Mass.	33.4
First Interstate of Wis.	32.9
Natl. Bank of Commerce, Neb.	32.8
AmSouth, Ala.	32.8
American Security, D.C.	32.7
Trust Co. of Georgia	32.7
Aetna Life & Casualty (76), Conn.	32.4
Comerica Bank, Mich.	32.4
Continental Illinois	31.9
Connecticut National Bank	31.9
First Interstate of Arizona	31.9
Maryland National	31.7
Security Pacific, Calif.	31.7
Natwest USA, N.Y.	31.6
Chase Manhattan (A), N.Y.	31.6
Trust Svcs of Amer., Calif.	31.3
MTrust, Texas	31.1
Harris Trust, Ill.	31.1
Omaha National Bank, Neb.	31.1
Bessemer Trust, N.Y.	31.0
Key Trust Co., N.Y.	31.0
Manufacturers Hanover, N.Y.	30.8
First Jersey National, N.J.	30.8
Society National, Ohio	30.7
Liberty National, Ky.	30.4
First Kentucky Trust	30.3
Bankers Trust (Fund A), N.Y.	30.3
First Union Bank (Fund 1), N.C.	30.3
Bank of California	30.3
IAA Trust Co. (Fund B), Ill.	30.2
Lincoln Natl. Pens., Ind.	30.2
Morgan Guaranty, N.Y.	30.1
Chemical Bank (No. 2), N.Y.	29.8
Crocker National (Fund R), Calif.	29.8
Natl. City Cleveland	29.8
Northern Trust, Ill.	29.8
Sovran Bank, Va.	29.8
First of Omaha (Fund C)	29.8
American National, Minn.	29.7
Massachusetts Mutual	29.7
Beverly Bank, Ill.	29.7
Provident National, Pa.	29.5
Chase Manhattan, N.Y.	29.3
Bank of America, Calif.	29.1
National Bank of Detroit	29.1
Colorado National Bank	29.1
Philadelphia National, Pa.	28.9
Wachovia Bank, N.C.	28.9
Shearson Lehman Index	**28.9**

3-year returns

	%
Centerre Trust, Mo.	21.2
United of Denver	21.0
Security Pacific (V), Calif.	20.9
Equitable Life (No. 5), N.Y.	20.0
First Interstate of Denver	19.8
IAA Trust Co. (Fund B), Ill.	18.9
Life of Virginia	18.8
Travelers (Acct. P), Conn.	18.7
Connecticut National Bank	18.5
Citicorp, N.Y.	18.0
Trust Svcs of Amer., Calif.	18.0
First Interstate of Ariz.	17.9
Security Pacific (F), Calif.	17.8
Central Fidelity, Va.	17.7
First Trust Corp., Colo.	17.7
Beverly Bank, Ill.	17.6
CIGNA Corp., Conn.	17.6
John Hancock, Mass.	17.4
Republic National Dallas	17.4
First Interstate of Nevada	17.3
Key Trust Co., N.Y.	17.2
Colorado National Bank	17.2
Manufacturers Life, Ont.	17.1
American Security, D.C.	17.0
First Variable Life, Ark.	17.0
Morgan Guaranty, N.Y.	17.0
Pacific Mutual, Calif.	17.0
Trust Co. of Georgia	16.9
Natwest USA, N.Y.	16.9
Crocker Natl. (Fund R), Calif.	16.9
First of Omaha (Fund C), Neb.	16.9
First Kentucky Trust	16.8
First Wisconsin Natl., Madison	16.8
Fidelity Bank, Pa.	16.8
Mutual of New York	16.8
First Interstate of Calif.	16.8
First Alabama, Mobile	16.7
Lloyds Bank (Fund C), Calif.	16.6
Bank of California	16.6
AmSouth, Ala.	16.6
Shearson Lehman Index	**16.6**
Northern Trust, Ill.	16.6
Liberty National, Ky.	16.5
State Street Bank, Mass.	16.5
CIGNA Corp., Conn.	16.5
Aetna Life & Casualty (76), Conn.	16.5
Mutual of New York	16.5
First Jersey National	16.4
Continental Illinois	16.4
Mellon Bank, Pa.	16.4
Colonial American Natl., Va.	16.4
Hawaiian Trust	16.4
Sovran Bank, Va.	16.4
Hamilton Bank, Pa.	16.4
Chemical Bank (No. 1), N.Y.	16.3
Natl. Bank of Commerce, Neb.	16.3
California First Bank	16.3
Philadelphia National	16.3
Harris Trust, Ill.	16.2
Shawmut Bank, Mass.	16.2
Citizens & Southern, Ga.	16.2
First of Chicago	16.2
First City Dallas	16.2
Connecticut National Bank	16.2

5-year returns

	%
Centerre Trust, Mo.	22.0
United of Denver	22.0
Life of Virginia	21.3
First Interstate of Denver	21.2
First Kentucky Trust	19.9
Citicorp, N.Y.	19.7
Sovran Bank, Va.	19.7
American Security, D.C.	19.6
IAA Trust Co. (Fund B), Ill.	19.6
First of Toledo, Ohio	19.5
Connecticut National Bank	19.5
CIGNA Corp., Conn.	19.3
Society National, Ohio	19.2
Trust Svcs of Amer., Calif.	19.2
Pacific Mutual, Calif.	19.2
John Hancock, Mass.	19.1
Equitable Life (No. 5), N.Y.	19.1
Beverly Bank, Ill.	18.9
Lloyds Bank (Fund C), Calif.	18.8
First Interstate of Ariz.	18.8
Bankers Trust (Fund A), N.Y.	18.8
Mutual of New York	18.8
Mellon Bank, Pa.	18.7
Key Trust Co., N.Y.	18.7
CIGNA Corp., Conn.	18.7
Crocker Natl. (Fund R), Calif.	18.6
Bank of California	18.6
Central Fidelity, Va.	18.5
AmSouth, Ala.	18.5
First Wisconsin National	18.5
Fidelity Bank, Pa.	18.4
Travelers (Acct. P), Conn.	18.4
State Street Bank, Mass.	18.4
First Interstate of Calif.	18.4
Colorado National Bank	18.3
Marine Midland, N.Y.	18.3
Mutual of New York	18.3
First Jersey National	18.3
Wachovia Bank, N.C.	18.2
Hawaiian Trust	18.2
Morgan Guaranty, N.Y.	18.1
First of Omaha (Fund C), Neb.	18.1
First Variable Life, Ark.	18.1
Travelers (Acct. D), Conn.	18.1
Trust Co. of Georgia	18.0
Colonial American Natl., Va.	18.0
Natl. Bank of Commerce, Neb.	18.0
Seafirst Bank, Wash.	18.0
Shearson Lehman Index	**18.0**
Associated Manitowoc, Wis.	17.9
Liberty National, Ky.	17.9
Aetna Life & Casualty (76), Conn.	17.9
First of Chicago	17.9
Frost National, Texas	17.8
Hamilton Bank, Pa.	17.8
American National, Minn.	17.7
First Bank Milwaukee	17.7
Natwest USA, N.Y.	17.7
Allied Bank, Texas	17.7
First of Maryland	17.7
First Trust Corp, Colo.	17.7

10-year returns

	%
Life of Virginia	13.4
Bank IV Wichita, Kan.	13.3
Centerre Trust, Mo.	13.3
Sovran Bank, Va.	13.2
United of Denver	13.0
Fidelity Bank, Pa.	12.8
Pacific Mutual, Calif.	12.8
First Jersey Natl., N.J.	12.7
Beverly Bank, Ill.	12.6
Texas Commerce	12.6
Hibernia National, La.	12.5
American Security, D.C.	12.4
Seafirst Bank, Wash.	12.4
Manufacturers Hanover, N.Y.	12.2
First Interstate of Calif.	12.2

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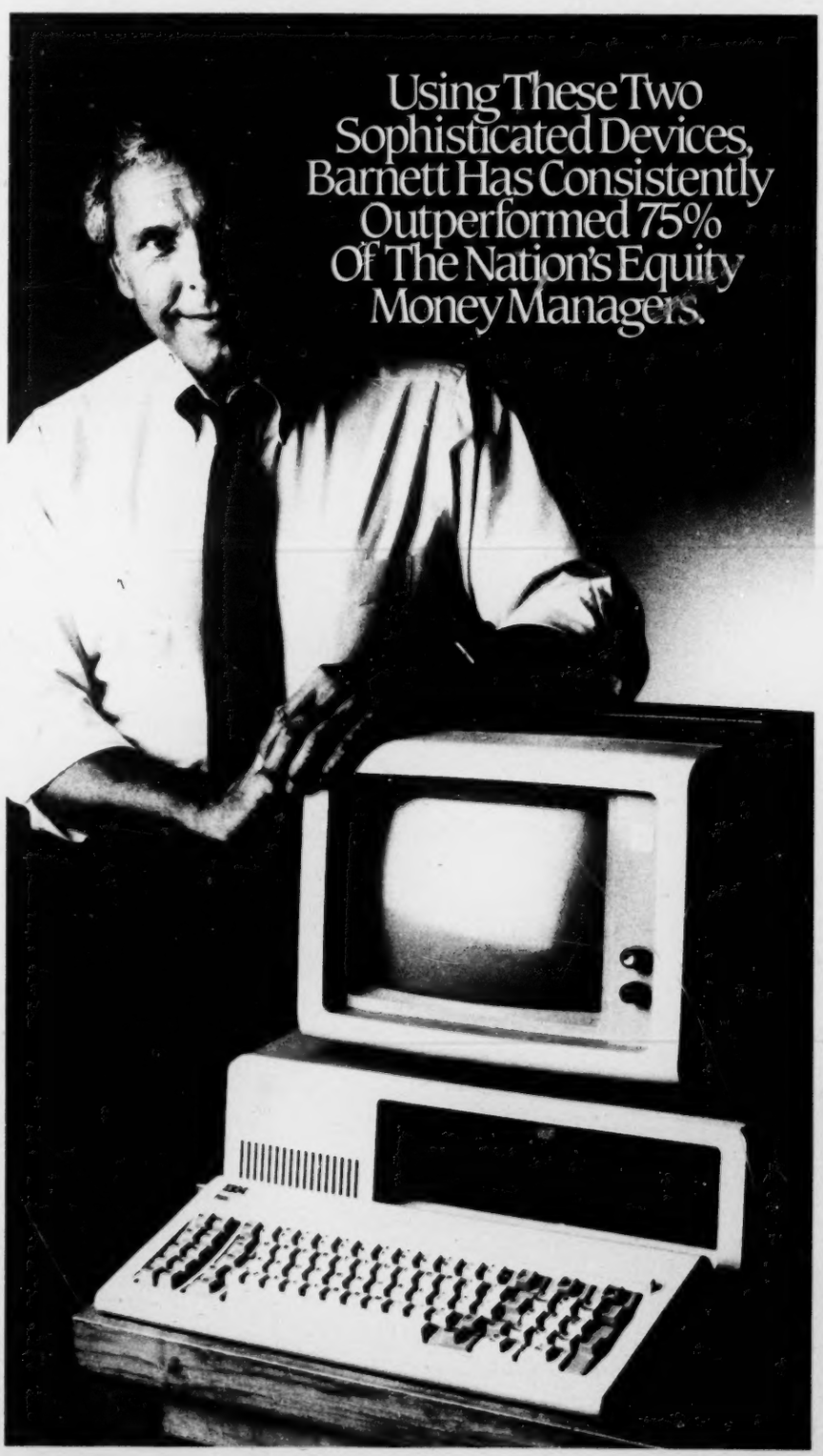
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Central Fidelity, Va.	12.1
First Interstate of Denver	12.0
First Kentucky Trust	11.9
Boatmen's National, Mo.	11.8
First Wisconsin National	11.8
First Interstate of Ariz.	11.8
CIGNA Corp., Conn.	11.8
Mercantile Trust, Mo.	11.7
Citicorp, N.Y.	11.6
American Natl. Bank, Tenn.	11.5
John Hancock, Mass.	11.5
Manufacturers Detroit	11.5
Commerce Union, Tenn.	11.5
Merchants National, Pa.	11.4
Lloyds Bank (Fund C), Calif.	11.3
Crocker Natl. (Fund R), Calif.	11.3
Bankers Trust (Fund B), N.Y.	11.3
Key Trust Co., N.Y.	11.3
Connecticut National Bank	11.3
Indiana National Bank	11.3
Cullen Bank, Texas	11.2
US Trust, N.Y.	11.2
Mellon Bank, Pa.	11.2
Allied Bank, Texas	11.2
Bessemer Trust, N.Y.	11.2
Oregon Bank	11.2
Bankers Trust (Fund A), N.Y.	11.2
First Bank Milwaukee	11.1
Jefferson Trust, Ill.	11.1
Toledo Trust, Ohio	11.1
First of Maryland	11.1
Shearson Lehman Index	**10.9**

Fixed . . .

Continued from page 19

"Mortgages hurt us for the quarter," he said, "even though we had lower coupon mortgages," which would tend to be repaid slower than higher coupon mortgages as interest rates fall. "Prices didn't go up," he added.

The maturity and duration for the portfolio during the quarter averaged, respectively, 15 years and 8½ years.

"We're starting to buy more corporate bonds," Mr. Franklin said. "They are looking attractive."

The Centerre fund has been a consistent, leading performer over the long term as well.

According to PIPER, it also ranked first in the year ended March 31, returning 50.1%. It was first again in the three-year rankings, returning 21.2%; first in the five-year rankings, returning 22%; and third in the 10-year rankings, returning 13.3%.

"With my record, you'd think every half-wit would have their money with me instead of these other funds," Mr. Franklin said.

Manufacturers Life Insurance Co., Toronto, ranked third in PIPER for the quarter, returning 14.4%.

Edward "Ted" Leman, investment vice president and portfolio manager for U.S. fixed income, said he played the 2013 strategy.

The entire fund of $1.5 million was in Treasuries maturing in 2013.

"I was bullish on interest rates," he said.

"The spread" — corporate to Treasuries — "widened," Mr. Lemon said. "So anyone investing at the quality end — Treasuries — got the biggest bang for the buck."

He said corporate issuers lambasted the market with refunding issues, driving corporate prices down.

New York-based Chase Manhattan Bank's fund ranked fourth in the quarter, returning 13.8%. Chase executives didn't return phone calls.

Union Labor Life Insurance Co., Washington, ranked fifth for the quarter, returning 13.4%.

Its $14 million fund was all in Treasury securities of maturities ranging from seven to 10 years, said Bob Wasilewski, senior portfolio manager.

"I liked the market," he said. "I think interest rates could trend down further. But the market might be volatile."

He doubts the fund will lengthen its maturities. "That's as aggressive as this fund will get," he said. "I don't feel comfortable going to long bonds."

He said falling oil prices triggered much of the good news for the fund. "I think oil prices have a bigger impact on the overall economy than people realize," he added.

The First Interstate Bank of Denver's $70 million fund ranked sixth for the quarter, returning 12.7%.

Jay Barr, the portfolio manager at Denver Investment Advisors Inc., the bank's unit that runs the fund, said its return benefited significantly from its Treasury bond holdings in the quarter.

"Governments outperformed corporates pretty significantly in the quarter," Mr. Barr said. The surge in corporate issues pushed prices down, widening the spread with Treasury securities and making government issues more

Continued on page 82

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Mutual Funds

ARP funds attracting corporate cash

By Barry B. Burr

Corporate cash managers, long used to investing their taxable cash internally through certificates of deposit, Eurodollar deposits and other generally safe instruments, are putting a small but growing piece of it into mutual funds.

Statistics aren't available on how much corporate cash has been attracted to mutual funds, already an investment haven for employee benefit money. The share of corporate taxable cash invested through mutual funds appears small, according to industry officials.

But the skyrocketing growth of adjustable rate preferred stock mutual funds "shows the growing awareness of corporate cash managers of mutual funds," said Charles O'Neil, senior vice president, Putnam Advisory Co., Boston.

Of all types of mutual funds, industry officials agree tax-qualified ones attract the most corporate cash, led by ARP funds and, to a lesser extent, money market mutual funds invested in municipal securities.

The reason for the attraction is their better after-tax yields and "stability of principal, which is paramount to a corporate treasurer," said Debra D. Spalding, group marketing direction, Fidelity Investments Institutional Services Co., a unit of Fidelity Mangement & Research Corp., Boston.

Corporate cash managers, of course, achieve the same results buying the securities directly. But some prefer to buy through mutual funds.

A cash manager for an East Coast pharmaceutical firm invests in a Fidelity tax-exempt money market fund, mainly for the convenience of adding or withdrawing funds quickly.

"It's not always easy to buy a tax-exempt bond for a short period of time," said the cash manager, who asked that her name not be used.

Lipper Analytical Services Inc., Westfield, N.J., lists 14 ARP mutual funds, with assets totaling more than $2.9 billion as of Dec. 31.

"It's unbelievable how the market has grown," said Polomba Weingarten, chief executive officer, Pilgrim Group Inc., Fort Lee, N.J., which started the first ARP fund in 1983, shortly after ARPS were first issued.

The Lipper ARP statistics belie the actual size of ARP-type funds that attract corporate cash. Lipper excludes the Dean Witter Tax-Advantaged Investment Trust from the ARP list, putting it under another category, even though most of its holdings are ARPS.

As of March 31, it had $296 million in assets and consisted of 66.6% ARPS, 32.1% flat-rate preferred stock and 1.3% cash, according to Charles Fiumefreddo, chairman of Dean Witter Reynolds Inc.'s New York-based money management division.

Peter M. Kunigk, institutional broker, Shearson Lehman Brothers Inc., New York, figures mutual funds hold about $4 billion of the $12 billion ARPS outstanding, through the ARP mutual funds and other high-yield strategy mutual funds.

"Mutual funds currently have a bigger share than ever of the ARP market," Mr. Kunigk said. "I don't see why they wouldn't get even bigger.

"I think there is a real incentive now for corporations to go into mutual funds than to buy ARPS individually themselves."

Mutual fund firms declined to break out the amounts invested by corporations. Tax-exempt money market funds, invested largely in municipal securities, attract high-tax bracket individual investors as well as tax shelter-seeking corporations, making it hard to estimate the share coming from cash managers.

But ARP funds, unlike other mutual funds, provide a fairly accurate indication of the amount invested by corporate cash managers, said Henry Shilling, Lipper's director of marketing.

Because of special tax advantages to corporations, which (unlike other investors) can exclude 85% of dividends received from their income, nearly all the money in ARP mutual funds probably comes from corporations, according to industry officials.

On a before-tax basis, ARP funds generally yield less than money market and other short-term mutual funds. But on an after-tax basis, the yields look more attractive to tax-paying cor-

Continued on page 51

Comparison of adjustable-rate preferred stock mutual funds

Fund	Net assets[1] $ mils.	For 12 months ended March 31 Total return[2]	Principal only	Yield[3]
W.P. Carey Corporate Preferred	42	9.77%	−1.09%	10.7%
Colonial Corp. Cash II	198	10.99	1.37	9.1
Dean Witter Tax Advantaged	278	13.36	4.30	8.2
Federated Corporate Cash	109	12.12	2.94	8.5
Fidelity Adjustable Rate	207	15.06	5.41	8.7
First Investors ARP	40	10.16	1.06	8.7
Flagship Corporate Cash Mgmt.	252	9.38	−0.08	9.2
Franklin Corporate Cash	79	10.14	0.75	9.0
Geico Adjustable Rate	76	11.22	1.95	8.7
Merrill Lynch Corporate Dividend	139	17.58	7.00	9.2
Pilgrim Adjustable Rate	880	11.19	1.76	8.8
Pru-Bache Adjustable Rate	248	14.42	4.27	9.2
Putnam Corporate Cash ARP	507	12.54	2.30	9.5
St. Clair Corporate Dividend	21	9.60	1.37	7.9
Vanguard Qualified Dividend III	138	8.76	0.17	8.3

[1] as of Dec. 31, 1985
[2] includes reinvestment of distributions
[3] includes non-dividend income; generally about 90% of yield qualifies for exclusion
Source: *Lipper Analytical Services Inc., Westfield, N.J.*

Value found in outside firms

By Trudy Ring

Having mutual funds managed by outside investment advisory firms is the exception rather than the norm, but mutual fund companies that do so are convinced of the practice's value.

"It provides an incentive to keep performance high," said Brian Mattes, assistant vice president of The Vanguard Group of Investment Cos., Valley Forge, Pa.

"Our performance record, I think, speaks for itself," said Elizabeth Watson, assistant treasurer and assistant to the chairman of The Ivy Fund, Hingham, Mass.

The reason Vanguard and Ivy officials believe performance pressure is stronger on outside managers is that it's easier to terminate or renegotiate a contract with an outside firm than with an in-house staff member.

The two firms differ on the merits of frequent management changes, however. Vanguard reviews its money manager contracts every year, but has made only a couple of changes in the past several years, Mr. Mattes said.

Changing managers frequently "is disruptive and not really in the best long-term interest of the funds, but it's available if we really need it," he said.

Ivy, on the other hand, has changed managers for its longest-standing fund five times in the past 10 years. Management changes aren't necessarily disruptive, Ms. Watson said.

Vanguard and Ivy's faith in their strategies doesn't mean staff-run funds can't perform well, too. There is value in both types of funds, said A. Michael Lipper, president of Lipper Analytical Services Inc., Westfield, N.J., which picks mutual fund investments for pension funds.

The firm has about $100 million under management, invested in a mix of staff-run and externally managed mutual funds, Mr. Lipper said. "We invest wherever we think there's the best value," he said.

Vanguard, Ivy and a relative newcomer, The Claremont Fund

Continued on page 50

Separate accounts used

Pension executives turning to mutual fund 'clones'

By Chuck Paustian

Pension fund executives are turning to separately managed replications of mutual funds rather than investing directly in the funds.

That's because they prefer the individual attention of a separately managed account while still capturing the investment strategy and performance of the mutual fund.

The extent to which the mutual fund is duplicated in the separate account depends on the nature of the fund and varies among management companies.

Some use the performance of the mutual funds to develop new separate account or enhance existing business.

A. Michael Lipper, president of Lipper Analytical Services Inc., Westfield, N.J., said the separate account route is appealing to both the investor and the mutual fund company.

"First of all, the company would show up in the proxy (of the mutual fund) and the company might not want to do that," said Mr. Lipper.

Mutual fund companies are required to disclose the names of investors that constitute more than 5% of the fund's assets.

Mr. Lipper also said large investors could prove to be a problem for the mutual fund company because they would eliminate any access to new money.

"We already have a number of funds that are closed to new money," he said. If a large pension plan represented a majority of a mutual fund's assets, when that investor pulled out, it could create liquidity problems for certain mutual funds, he added.

Most mutual fund companies offer separate account management based, at least in part, on the strategy that has made a particular mutual fund a success. Some mutual fund companies offer separately managed replications of more than one mutual fund.

Wynn Jessup, senior vice president and director of client services of Delaware Management Co., Philadelphia, said a division of the company, Delaware Investment Advisers, offers separate account management based on the strategy of the $1 billion Decatur Fund. Investment of all of the $10 billion managed by Delaware Investment follows the Decatur Fund's strategy.

Scott Gledhill, vice president of Pioneering Management Corp., Boston, said the firm offers separate account management based on three mutual funds — the $1.33 billion Pioneer Fund, the $2.69 billion Pioneer II Fund and the $27 million Pioneer Bond Fund.

The minimum account for separate management is $25 million. About $1.35 billion is managed in separate accounts emulating one of the mutual funds.

Other mutual fund companies that offer separate account management based on the strategy of a mutual fund include: The Putnam Management Co. Inc., Boston; T. Rowe Price Associates Inc., Baltimore; Paribas Asset Management, New York; and Investors Research Corp., Rolling Meadows, Ill.

The performance of the mutual fund companies has caught the attention of many pension fund executives.

W.E. Rose, director-retirement assets at Libbey-Owens-Ford Co., Toledo, Ohio, said his company has $34 million in a separately managed account with Delaware Investment Advisers, which follows the Decatur fund.

Libbey-Owens-Ford has about $580 million in retirement assets.

He said the decision to hire the firm was partially based on the similarity between the separate account management and the mutual funds.

"One of the things that attracted us to Delaware in the first place was their mutual fund success and philosophy," said Mr. Rose.

Mr. Rose said the company opted for separate account man-

Continued on page 55

Outside . . .

Continued from page 50

appropriate.

An advantage of multiple managers for each portfolio, he said, is that while the client's return will not be as good as that of the best-performing manager, it will not be as bad as that of the worst performer.

He also said the Claremont arrangement gives clients access to managers they could not use otherwise. The minimum investment in the mutual fund is $1,000, much less than the minimum separate account managed by most firms.

From June through December, Claremont's equity portfolio returned 10.3%; bond portfolio, 8.7%; and combined portfolio, 10.6%, he said. The money market fund's average yield last year was 7.5%.

Mr. Mattes and Ms. Watson disagreed on whether contracting with outside firms is more expensive than having in-house portfolio managers. Mr. Mattes said it may be cheaper. "We pay only for what we use," he said.

Ms. Watson said, "We perhaps pay a little more on a day-by-day basis for investment advice, but that's offset or more than offset by our performance."

At the Claremont Fund, the Claremont Co. and the outside managers divide what would be the average total fee, said Deborah Allen Olivier, Claremont Co. president.

The Fidelity-Chemical joint ventures are Metro Portfolio Investors Stock Fund, which has $4.3 million in assets, and Metro Portfolio New York Tax-Free Money Market Fund, with about $90 million. The funds' investors are mainly individuals, but they have attracted a small amount of pension dollars and corporate cash, said Stephen B. Timbers, chief investment officer of The Portfolio Group.

The stock fund returned 45.1% from its inception, March 31, 1985, to year end, Mr. Timbers said. The money market fund had a seven-day yield of 4.5% in early April.

The relationship between Fidelity and Chemical is limited, said Dick Reilly, vice president of Fidelity. Banks can't legally structure or underwrite mutual funds, but they can have joint ventures with mutual fund companies so they can make the funds available to their clients.

Including other money market funds, Fidelity has less than 1% of its $34 billion in mutual funds managed externally, Mr. Reilly said.

Mr. Reilly said he is a believer in in-house management for mutual funds. At Fidelity's operation, research done for one fund is shared with other funds, he said. While companies, such as Vanguard, that do use outside managers have some funds that perform well, mutual fund companies that use in-house managers also have good performance, Mr. Reilly said.

At The Boston Co., which has 60 mutual funds, using various management firms within the same parent company adds value and diversification for shareholders, said Stephen Jenks, vice president and director of institutional marketing for mutual funds. Of the firm's $22 billion in mutual funds, about $16 billion is institutionally held, he said.

The firm's equity mutual funds generally have a return about 10% better than the Standard & Poor's 500 stock index, Mr. Jenks said.

Other mutual fund companies that have some amount of their assets managed externally are The Dreyfus Corp., New York, 10.7%; Reich & Tang Inc., New York, 2%; Provident Institutional Management, Wilmington, Del., 1.9%; and Keystone Custodian Funds Inc., Boston, and AIM Management Inc., Houston, both less than 1%.

ARP funds . . .

Continued from page 49

porations, provided they hold the preferred securities at least 46 days to qualify for the exclusion.

Companies in the top 46% tax bracket, for instance, pay tax on only 15% of their dividend income, leaving 93.1% of the dividends received tax free.

By comparison, the same companies would receive only 54% of the interest income of a taxable money market fund.

Aside from yield, the attraction of ARP funds is stability of principal. "One of the main concerns of the corporate cash manager is principal preservation," said Mr. Shilling. "There are very few vehicles that protect them on the downside."

Colonial Life & Accident Insurance Co., Columbia, S.C., has $20 million, or 10%, of its $200 million in corporate cash in five mutual funds, said Roland David, investment officer. It has about $4 million in each, he said.

Three are ARP funds — the Flagship Corporate Cash Management Fund, Putnam Corporate Cash ARP Fund and Colonial Corporate Cash II Fund, which is no relation to the insurer. The other two also are dividend-oriented funds but all mix high-yield common and flat-rate preferred stocks, as well as ARPS — Fidelity Qualified Dividend Fund and Vanguard Qualified Dividend II Fund.

"Primarily the major reason we are in the funds is for the high yield," Mr. David said. "With 85% dividend exclusion, our net after-tax yield is high compared to what we could get in a money market fund. Another reason is the liquidity."

He said mutual funds have greater "manager expertise."

"We really don't have time to go through the selecting process to look at all the individual stocks," Mr. David added.

The before-tax returns, including dividends and appreciation, of the five funds in 1985 ranged from 8.2% to 11.5%, he said. After-tax returns weren't available. He said about 10% to 15% of the before-tax returns came from capital gains.

He noted only the dividends receive favorable tax treatment, while interest is fully taxable and capital gains are taxable at either the short- or long-term rate, depending on the period invested.

He said Colonial Life likes the funds to have at least 92% of their income, not including capital gains or losses, qualify for the dividend exclusion.

He said his company's mutual fund holdings probably will remain at about the same level this year.

The Pilgrim Adjustable Rate Fund has been the biggest ARP mutual fund since the start, with $880 million in assets as of Dec. 31. Its performance is described as "not overwhelming" but "average" by Mr. Kunigk.

Ms. Weingarten, in explaining Pilgrim's lead, said, "We are the purest form of ARP fund; we are the cleanest, simplest, easiest to understand ARP fund." The Pilgrim fund contains 7% flat-rate preferred stock; 8% cash equivalents; 85% ARPS, she said.

By comparison, Peter M Dodge, president of W.P. Carey & Co.'s Corporate Preferred Fund, noted his fund has a higher position in ARPS. He said it buys only ARPS, and no other kind of preferred stock, with about 95% in ARPS and the rest in cash-type instruments.

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CRITERION

Mutual funds . . .

Continued from page 1

Abbett & Co., New York, which had $3.8 billion in eight mutual funds at year end.

"The use of mutual funds by retirement plans is growing, there is no doubt," said A. Michael Lipper, president, Lipper Analytical Services Inc., Westfield, N.J. He estimates the most rapid growth is among defined contribution plans.

"No one has decent numbers on how much retirement plans have placed with mutual funds," Mr. Lipper said. "Counts are extremely questionable, including the ICI's."

The increasingly common corporate practice of terminating overfunded defined benefit plans is helping to fuel the growth. "When they replace (the terminated plan) with a defined contribution plan, the odds improve that they will use mutual funds," Mr. Lipper said.

"In the last two or three years, the mutual fund industry has been a very formidable competitor in the defined contribution marketplace," said E.F. Bowditch Jr., senior vice president-institutional marketing, at the Vanguard Group of Investment Cos. in Valley Forge, Pa.

Vanguard had about $18 billion in 41 mutual funds at the end of 1985. He estimated about $2.1 billion of the total came from defined contribution plans and $1.5 billion from defined benefit plans.

Mr. Bowditch also speculated pension executives might be more willing to use mutual funds in their defined benefit plans after growing comfortable with them in their defined contribution plans.

To successfully sell defined benefit plan executives on mutual funds, marketers will have to overcome many obstacles.

"Some corporate trustees have the view that mutual funds are not sophisticated investment vehicles," said Albert Mangeson, vice president-marketing of NEL Equity Services Corp., Boston.

The firm is a broker-dealer subsidiary of New England Life Mutual Life Insurance Co., which had about $1.7 billion in mutual fund assets at year end.

"Sponsors like to have someone hold their hands," said Randy Woods, vice president-marketing at Waddell & Reed Inc. in Kansas City, Mo. The firm, which had about $4.2 billion in 15 mutual funds at year end, is gearing up

Continued on page 54

Mutual fund families with assets of $1 billion or more

	Company	Total mutual fund assets $ millions	Mutual fund assets managed in-house $ millions
1.	Merrill Lynch Asset Mgmt., New York	51,877.3	51,877.3
2.	Fidelity Mgmt. & Research, Boston	33,996.1	33,738.7
3.	Federated Investors, Pittsburgh	31,087.8	31,087.8
4.	Dreyfus, New York	29,756.3	26,569.3
5.	Boston Co. Advisors, Boston	22,285.0	1,047.0
6.	Dean Witter Reynolds, New York	21,103.9	21,103.9
7.	Vanguard Group, Valley Forge, Pa.	17,984.9	6,021.6
8.	Kemper Financial Services, Chicago	17,909.3	17,909.3
9.	Franklin Advisers Inc., San Mateo, Calif.	16,042.2	16,042.2
10.	E.F. Hutton, New York	13,514.9	13,514.9
11.	Wellington Mgmt. Co., Boston	13,248.3	13,248.3
12.	Prudential-Bache Securities, New York	12,798.3	141.0
13.	Prudential Insurance Co., Newark, N.J.	12,657.3	12,657.3
14.	IDS/American Express Inc., Minneapolis	12,153.0	12,153.0
15.	Putnam Mgmt. Co., Boston	11,827.0	11,827.0
16.	Provident Institutional Mgmt., Wilmington, Del.	11,679.8	11,456.6
17.	Capital Research & Mgmt. Co., Los Angeles	11,208.7	11,208.7
18.	T. Rowe Price Associates, Baltimore	10,972.5	10,972.5
19.	Shearson/American Express, New York	10,906.0	10,906.0
20.	Goldman, Sachs & Co., New York	9,287.5	9,287.5
21.	PaineWebber, New York	8,824.9	8,824.9
22.	Mass. Financial Services Co., Boston	6,573.8	6,573.8
23.	AIM Mgmt., Houston	5,393.8	5,350.7
24.	Colonial Mgmt. Associates, Boston	5,344.7	5,344.7
25.	Scudder Stevens & Clark, New York	4,929.1	4,929.1
26.	SEI Financial Mgmt. Corp., Chicago	4,692.4	0.0
27.	Templeton Investment Counsel Ltd., Nassau, Bahamas	4,575.4	4,575.4
28.	Oppenheimer Asset Mgmt. Corp., New York	4,526.1	4,526.1
29.	Keystone Massachusetts Group, Boston	4,402.9	4,399.9
30.	Waddell & Reed Inc., Kansas City, Mo.	4,252.6	4,252.6
31.	Pioneering Mgmt. Corp., Boston	4,162.8	4,162.8
32.	Lord Abbett & Co., New York	3,822.6	3,822.6
33.	Alliance Capital Mgmt. Corp., New York	3,434.7	3,434.7
34.	Securities Fund Mgmt., Topeka, Kan.	3,221.9	0.0
35.	Delaware Mgmt. Co., Philadelphia	3,203.0	3,203.0
36.	J.& W. Seligman & Co., New York	2,986.2	2,986.2
37.	First Investors Mgmt. Co., New York	2,951.9	2,951.9
38.	Investors Research Corp., Santa Barbara, Calif.	2,863.9	2,863.9
39.	Oppenheimer Mgmt. Corp., New York	2,805.5	2,805.5
40.	Benham Capital Mgmt. Group, Palo Alto, Calif.	2,741.5	2,741.5
41.	Reich & Tang, New York	2,702.6	2,625.0
42.	Smith Barney, New York	2,641.0	2,641.0
43.	Criterion Funds Inc., Houston	2,593.2	2,593.2
44.	Webster Mgmt. Corp., New York	2,532.1	2,532.1
45.	Stein Roe & Farnham, Chicago	2,527.2	2,527.2
46.	Thomson McKinnon Asset Mgmt., New York	2,438.3	2,438.3
47.	Nuveen Advisory Corp., Chicago	2,413.4	2,413.4
48.	Drexel Burnham Mgmt. Corp., Philadelphia	2,261.7	2,261.7
49.	Reserve Mgmt. Corp., Boston	2,197.6	2,197.6
50.	John Hancock Advisers Inc., Boston	2,037.3	2,037.3
51.	American Portfolio Advisory Service, Lisle, Ill.	1,998.2	1,998.2
52.	Lazard Freres & Co., New York	1,867.7	1,867.7
53.	Security Pacific Nat'l Bank, Los Angeles	1,830.2	1,830.2
54.	Eaton Vance Corp., Boston	1,797.9	1,797.9
55.	National Securities & Research, New York	1,784.2	1,784.2
56.	New England Life/Loomis, Sayles, Boston	1,684.1	1,684.1
57.	USAA Investment Mgmt. Co., San Antonio, Texas	1,639.6	1,639.6
58.	Carnegie Capital Mgmt., Cleveland	1,577.3	1,577.3
59.	Value Line Inc., New York	1,530.9	1,530.9
60.	Heine Securities Corp., New York	1,510.1	1,510.1
61.	Neuberger & Berman Mgmt., New York	1,496.1	1,496.1
62.	Morgan Guaranty Trust, New York	1,286.3	1,286.3
63.	CIGNA Investment Mgmt., Hartford, Conn.	1,243.5	1,243.5
64.	Calvert Asset Mgmt., Washington	1,220.5	1,220.5
65.	Financial Programs, Englewood, Colo.	1,113.4	1,113.4
66.	Furman Selz Mager Dietz & Birney, New York	1,102.1	0.0
67.	Marine Midland Bank, New York	1,085.6	1,085.6
68.	Calvin Bullock Ltd., New York	1,071.1	861.9
69.	Dimensional Fund Advisors, Santa Monica, Calif.	1,065.8	1,065.8
70.	Nicholas & Co., Milwaukee	1,032.4	1,032.4
71.	American Capital Mgmt. Assets, Houston	1,028.1	1,028.1
72.	Pilgrim Mgmt., Ft. Lee, N.J.	1,001.6	1,001.6

Source: Lipper Analytical Services Inc., Westfield, N.J.

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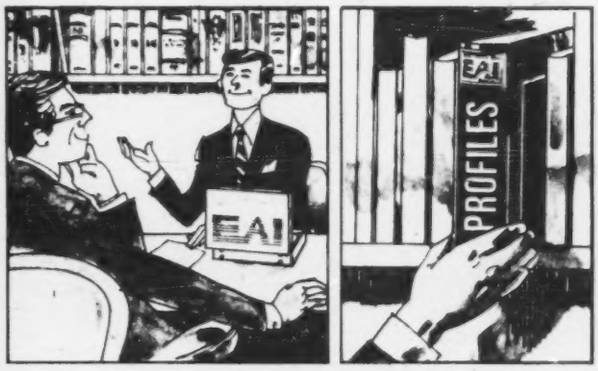

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Mutual funds . . .

Continued from page 52

or a marketing campaign aimed at employee benefit plans.

Pension fund executives "enjoy communicating with their advisers," noted Stanley Egener, president of the No-Load Mutual Fund Association, a trade association based in New York. "They like to meet with the adviser, hear him report his current thinking on the market and what posture he will take with the portfolio."

Mr. Egener also is president of Neuberger & Berman Inc., New York. The firm had about $1.5 billion in mutual funds at year end and about $2 billion currently. Of the $2 billion, about 90% is from defined contribution plans and 10% from defined benefit plans.

Mutual funds have been most successful among pension funds with less than $10 million in assets. That's because they might offer smaller plans greater diversification than they could get from one or two balanced managers.

"Mutual funds tend to have more securities than the portfolio of a boutique manager," Mr. Lipper said. He said they offer a higher degree of professional management than do most boutique managers servicing that market.

Mr. Lipper said mutual funds make sense for employee benefit funds as large as $100 million; Mr. Egener said funds up to $50 million would benefit from using mutual funds.

Terry Bilkey, first vice president at the Butcher Consulting Group, Pittsburgh, said his clients — mainly small and middle market pension funds — could use mutual funds, but still prefer individual managers.

Mutual funds provide "good diversification, reasonable fees, quality management, liquidity and the ability to change asset mix and managers easily," he said.

"I thought clients would receive that logic well, but I was wrong. They want the attention investment managers give to separate accounts.

"It takes a confident fund sponsor to use (mutual funds) because you don't get hand holding."

Another advantage is "you can be fairly certain (mutual fund managers) will stay in their investment discipline," said Laurence D. Lang, assistant treasurer at Campbell Soup Co., Camden, N.J., which uses seven equity mutual funds in its nine-manager equity portfolio. Campbell has more than $500 million in employee benefit assets.

Mr. Lang and others interviewed said using mutual funds eliminates the problem of suspect performance data supplied by boutique managers.

"For example, if you hire two new (boutique) managers and they perform poorly at the beginning, you have no way of telling if they are managing bad or if their style is out of favor," Mr. Lang said. "There is no meaningful measure of short-term performance, so all you have to go on is the performance data the managers have supplied you with and hope that the poor performance isn't due to bad management.

"Later, you may find that one was managed poorly and one was out of favor.

"With a mutual fund, all performance data is public knowledge."

Campbell's hired E.W. Axe & Co., Tarrytown, N.Y.; Capital Research Co., Los Angeles; Delaware Management Co., Philadelphia; Kemper Financial Services Inc., Chicago; Pioneering Management Corp., Boston; and J&W Seligman & Co., New York, as equity mutual fund managers, Mr. Lang said. He said he also uses a money market fund offered by the Putnam Management Co., Boston.

Campbell uses the investment strategy of its consultant — Lowry, Raclin, Harrell & Howerdd, Dallas — which is known for using mutual funds.

Control by fund executives and trustees over asset allocation is the most important ingredient of the discipline, which rules out the use of balanced managers, explained Mr. Lang.

The discipline also subscribes to the theory that over the long term, stocks will achieve the best returns. Lowry believes in allocating among four styles: aggressive growth; growth; growth and income; and income.

"If the asset allocation is 70% and you need to get to 60%, it is easier to sell mutual fund shares than individual stock," Mr. Lang said.

The Campbell equity holdings now comprise 50% of the fund's portfolio, down from 75%. "If the market continues going up, we may go down to 40%."

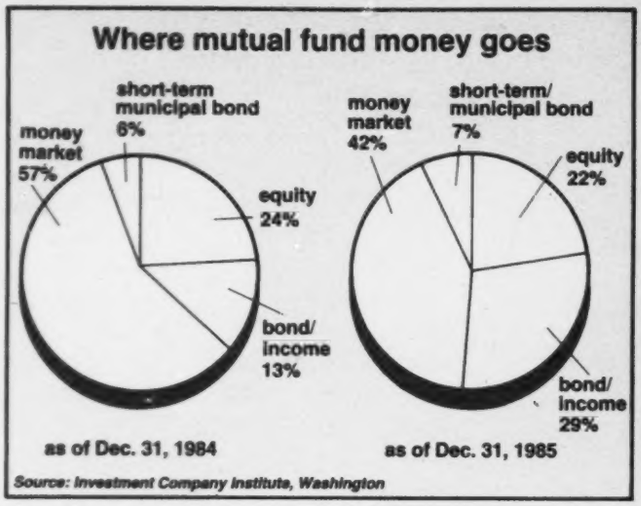
Campbell switched to mutual funds in 1981. "Prior to that, we had separate accounts at boutique managers," Mr. Lang said.

"We had meetings quarterly with managers and when performance was bad, they always had a good reason," he recalled.

"We would leave those meetings not feeling like we were managing anything. So we asked ourselves what we could do to look over the manager's shoulder better."

It was then the fund turned to Lowry.

Although Lowry has many clients — like Campbell — that subscribe to the firm's discipline, defined benefit plans most often use a single mutual fund as one of several money managers. For



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At Scudder, we're retirement plan specialists. Armed with advanced record-keeping systems, fast, accurate statements, and comprehensive management reports. We offer plain-English programs and guidance. We'll work with you from enrollment to retirement. Today, we help leading companies manage billions of dollars in retirement assets.

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Clones . . .

Continued from page 49

agement rather than the mutual fund approach to get individual attention paid to the pension account.

Gregory Nagle, manager of pensions at the Chicago Transit Authority Employees' Retirement System, with $730 million in assets, agreed individual attention is a factor, but said the performance of the mutual fund companies is paramount.

"The major thing we looked at, of course, was whether it looked like they could deliver the results of the mutual fund in a separate account," Mr. Nagle said.

He said the pension fund has a $69 million separate account with Delaware and a $34 million separate account with Putnam, which emulates the Putnam Investor fund.

The extent to which the performance of the mutual fund is replicated by the separate account varies. "It depends on the organization and really the type of securities and, to some degree, cash flow," said Mr. Lipper.

For example, Mr. Lipper said separately managed accounts tend to have cash inflows at one time, which could affect the average purchase price of securities and thus affect performance.

He said investors looking at separate account management have to decide what is an acceptable degree of tracking error. A one-for-one correlation is possible, but very difficult.

Mutual fund companies try to keep the investment process for the mutual funds and the separate accounts as close as possible.

Delaware's Mr. Jessup said the 11 separate account managers and the mutual fund manager meet once a week to discuss their investment decisions.

"They all operate under the exact same investment guidelines. They all have the same buy-sell disciplines," Mr. Jessup said.

He said the performance of the separate accounts and the mutual fund may differ slightly in any particular year because of different weightings of stocks, but the long-term results are virtually identical.

Stephen M. Barney, vice president-investments at Investors Research, said the separate account duplicates, on a percentage basis, the underlying mutual fund.

"Over time, the clones own exactly the same stocks in exactly the same proportions as the target fund," said Mr. Barney.

Some mutual fund companies use successful funds as a means of developing, or boosting, separate account business.

Paribas Asset Management, which began offering two mutual funds in April, will offer separately managed accounts on both of its mutual funds. The minimum account size for separate account management is $10 million.

"We think being a relatively new manager, (the mutual fund) gives us a public record and allows people to track us," said Wayne Leizear, executive vice president-marketing at Paribas.

Mr. Gledhill said Pioneering, which began offering mutual funds in 1928, started offering separate account management in 1976 to increase assets under management without changing the philosophy of the firm.

"At that point, they had two mutual funds, both equity and both invested in the same style and they did not want to invest in any other styles. They didn't want to invest in bonds at that time either," he said.

Growth of mutual funds

Year	No. of funds	$ mils.
1940	68	448
1965	170	35,200
1970	361	47,618
1975	426	45,875
1980	604	134,761
1981	665	241,365
1982	849	286,679
1983	1,072	292,986
1984	1,246	370,680
1985	1,505	495,500

Source: *Investment Company Institute, Washington*

Mutual fund investing . . .

Continued from page 54

tapped mutual funds as their entry into the international equity arena.

Generally, employee benefit clients invest differently from other mutual fund investors. They buy into equity mutual funds most heavily, industry participants say, while other mutual fund investors are putting their money into bond and income products.

Performance also is an issue.

The average compound annual return among the 512 general equity mutual funds and 160 special equity funds in the Lipper Analytical equity universe for the 10 years ended March 31 was 16.5%, vs. 14.3% for the Standard & Poor's 500 stock index. The 10-year average return for just the general equity funds was 16.65%.

For five years, Lipper's equity universe returned an average of 13.1% vs. 17.5% for the S&P 500 and 15.7% for Lipper's general equity mutual funds.

For one year, the average mutual fund in the Lipper equity universe returned 32.6%; the S&P 500, 37.7%; and the average fund in the general equity universe, 33.4%.

The average return of the 248 fixed-income funds in the Lipper universe for the 10-year period was 10.6% vs. 10.9% for the Shearson Lehman Government/Corporate bond index.

For the five-year period, the Lipper fixed-income universe had an average return of 16.7%, vs. 18% for the Shearson Lehman index.

For one year, the average return of the Lipper universe was 23%, vs. 28.9% for the Shearson Lehman. ■

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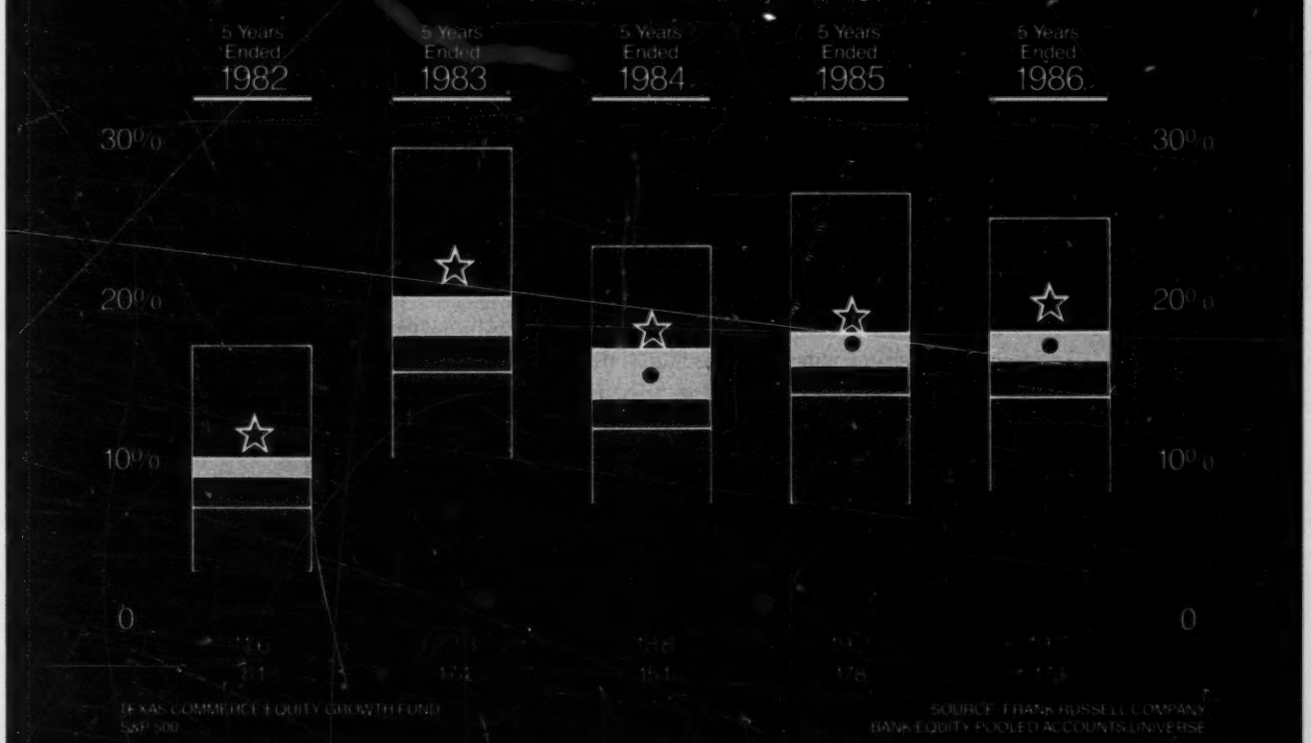

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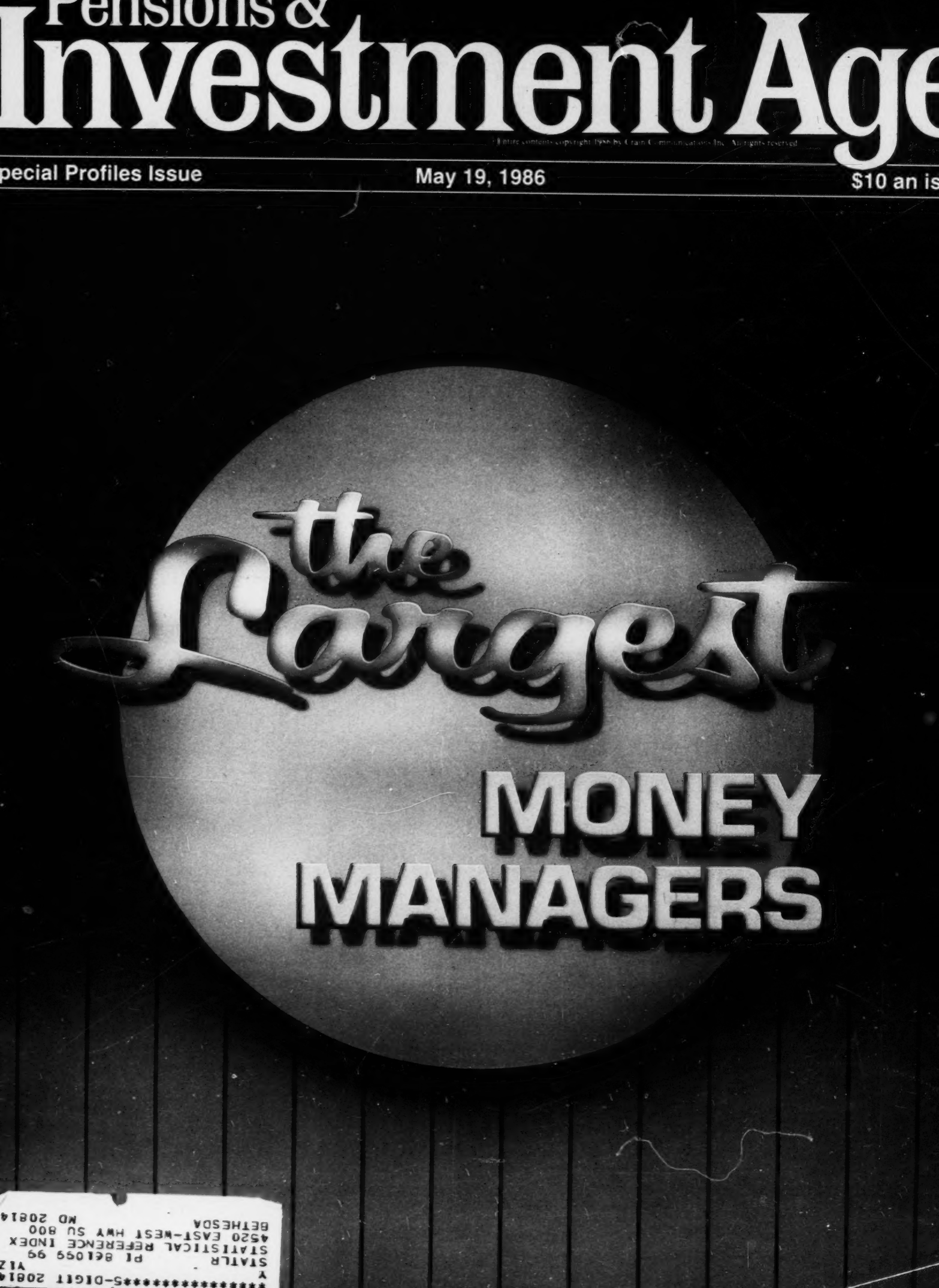

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Top 100 firms' assets surge 25%

By Carol Wiley

Fueled by the tremendous growth in the stock and bond markets, total assets managed by the nation's 100 largest money managers increased an impressive 25% during 1985, *Pensions & Investment Age*'s annual money manager survey shows.

The 100 largest money managers reported total assets under management of $1.5 trillion as of Jan. 1, 1986, compared with $1.2 trillion as of Jan. 1, 1985.

Total tax-exempt assets managed by the 100 largest managers were up 15%, to $843 billion from $735 billion a year earlier.

The Top 100 managers of tax-exempt assets in *P&I Age's* 13th annual survey were 36 banks and trust companies and subsidiaries, 28 insurance companies and subsidiaries and 36 independent investment counselors.

Statistics were compiled from questionnaires submitted by 846 U.S., Canadian and foreign managers of U.S. tax-exempt assets. *(Profiles begin on page 13.)*

Of the 846 managers, 187 are U.S. banks, trust companies and their subsidiaries; 69 are U.S. insurance companies and their subsidiaries; 550 are U.S. and international (excluding Canada) independent investment advisers; and 40 are Canadian banks, insurers and independent counselors.

The Top 25 investment managers reported $174 billion in tax-exempt assets under management at the beginning of 1986, up 21% from last year's $144 billion.

The largest independent investment managers of tax-exempt assets in this year's survey are Batterymarch Financial Management, with $12 billion; Scudder, Stevens & Clark, $11 billion; Delaware Investment Advisers, $9 billion; Criterion Investment Management Co., $8.7 billion; and Miller, Anderson & Sherrerd, $8.4 billion.

The 25 largest banks and trust companies reported more than $303 billion in total tax-exempt assets under management as of Jan. 1, an increase of 17% from the $259 billion recorded a year earlier.

The largest banks and trust companies ranked by tax-exempt assets are Bankers Trust — Investment Management Group, with $42 billion; J.P. Morgan Investment Management Inc., $39 billion; Wells Fargo Investment Advisors, $30 billion; Mellon Bank, $21 billion; and Manufacturers Hanover Investment Corp., $18 billion.

The 25 largest insurance companies and subsidiaries showed a 20% increase in tax-exempt assets under management during the year ended Jan. 1, to $350 billion from $291 billion. The largest insurance companies ranked according to tax-exempt assets are Prudential Asset Management Group, with $62 billion; Equitable Life Assurance Society of the United States, $54 billion; Metropolitan Life Insurance Co., $39 billion; Aetna Life and Casualty Co., $32 billion; and New England Mutual Life Insurance Co., $21 billion.

Market share among the Top 100 in the three major categories of investment managers — banks, insurers and independent counselors — shifted in favor of insurers and their subsidiaries during the year ended Jan. 1 *(see related story on page 2)*.

Insurance companies and their subsidiaries in the Top 100 grabbed 38% of the pie as of Jan. 1, compared with 34% a year earlier; banks, trust companies and their subsidiaries, 36% vs. 39% a year earlier; and independent counselors, 26% vs. 27% a year ago.

The average asset mix of the Top 200 money managers surveyed compared with the average of all managers surveyed shows smaller managers moved more heavily into equities last year than did the larger ones. That suggests the smaller institutional investor — not the conservative, big money manager — added fuel to the stock market rally.

According to the survey, the Top 200 money managers invested the same percentage — 49% of tax-exempt assets — in equities in 1985 as they did in 1984. But the average amount in equities for all managers was 55% as of Jan. 1, up from 52% a year earlier.

As of Jan. 1, the Top 200 investment managers reported an average tax-exempt asset mix of 49% stocks, 29% bonds, 9% cash, 7% equity real estate, 2% mortgages, 2% mortgage-backed securities and 2% other.

On Jan. 1, 1985, the Top 200 reported an average mix of 49% stocks, 30% bonds, 11% cash, 5%

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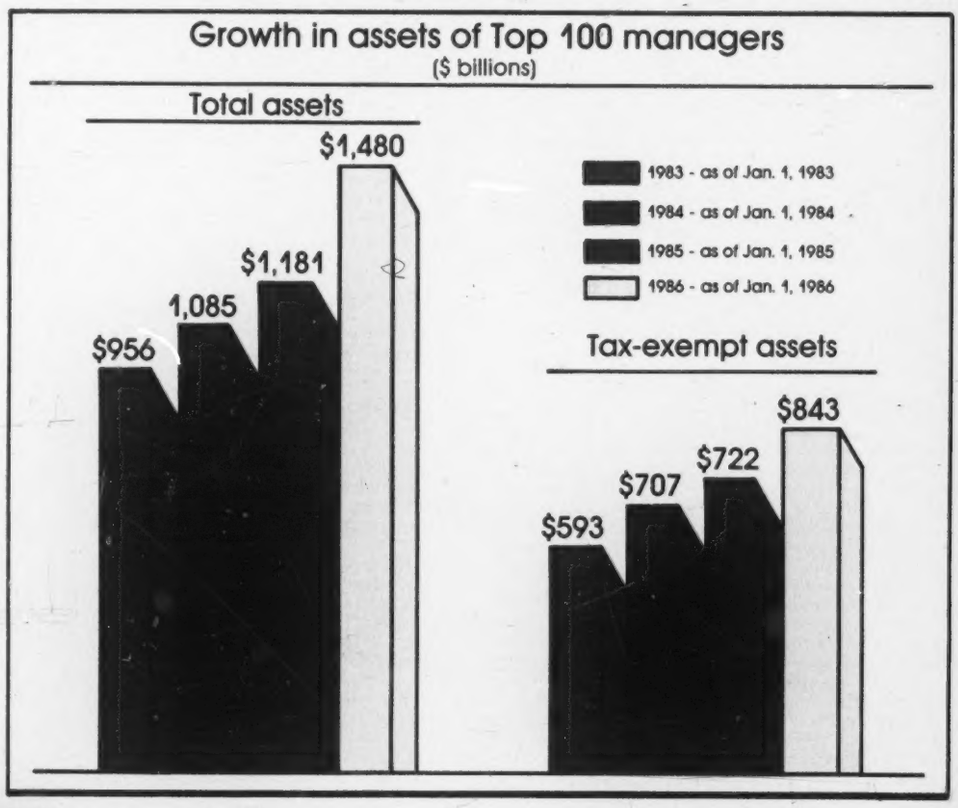

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